FINANCIAL HISTORY

The magazine of the Museum of American Finance

Warren Buffett: Learning Through the School of Hard Knocks

Commerce and Religion Grow Together in the Early US

The Bitcoin Premonition

ISSUE 125 | SPRING 2018

FINANCIAL HISTORY

THE MAGAZINE OF THE MUSEUM OF AMERICAN FINANCE

in association with the Smithsonian Institution

Issue 125 • Spring 2018
(ISSN 1520-4723)

Financial History is the official membership magazine of the Museum of American Finance.

MUSEUM OF AMERICAN FINANCE

Smithsonian Affiliate

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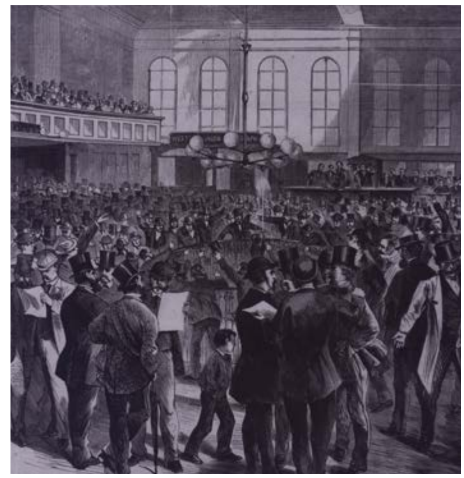

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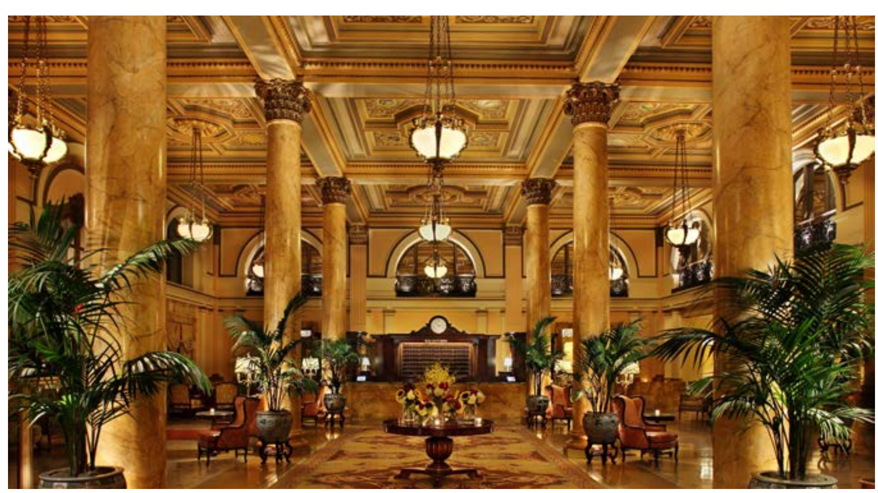

Courtesy of Historic Hotels of America (HHA)

IN THIS ISSUE **DEPARTMENTS**

ON THE COVER

The Buffett family at home in Omaha, Nebraska, in 1956. Left to right: Howard (17 months), Susie (2½ years), Warren and Susan. See article, page 20.

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Programming Continues as Museum Deals with Aftermath of Flood

Message to Members

David J. Cowen | President and CEO

Much has happened since I last wrote this column and informed our readers about a major flood that took place in our building over the Martin Luther King, Jr. weekend when a heating pipe on the fourth floor burst and impacted all three floors of the Museum. Since then, our collection — none of which was damaged — has been moved off site to a climate-controlled facility for safe keeping during construction. Our staff has also relocated off site and, when not working on construction and insurance-related issues, has begun adapting our programming to emphasize content that can be offered outside of 48 Wall Street. Stay tuned for a new blog and off-site educational initiatives in the coming months.

While our exhibit galleries have been closed to the public, we have fortunately been able to continue our public programs, thanks largely to the Fordham University Gabelli Center for Global Security Analysis and their director, Jim Kelly. We have hosted three evening events in partnership with the Gabelli Center since January, including lectures by MIT Professor Andrew Lo and Warren Buffett's editor of choice, Lawrence Cunningham, as well as a large-scale blockchain program in February (*see article, page 5*). All events were presented to sold-out audiences, and the first two are available on our YouTube channel @FinanceMuseum.

Our CEO Series, "Why Wall Street Matters," continues as well and has recently featured videos with Gerald Walker (ING Americas) and Joseph Tarantino (Protiviti). Programs in this series can be viewed on the Museum's website and YouTube channel, as well as on Cheddar, a live and on-demand news network covering technology, media and entertainment. Upcoming videos this Spring will feature Ellen Alemany (CIT), Adena Friedman (Nasdaq) and Michael Corbat (Citi).

We have also recently welcomed two new members to our Board of Trustees. Carol Kaimowitz spent most of her career in the insurance industry and in recent years has volunteered her time assisting with the Museum's archival collection, including translating a number of international pieces. Bradford Hu, who has been the Chief Risk Officer at Citi since 2013, joined the Board in February. We are very excited to welcome Carol and Brad to our Board, and I look forward to working with them as we plan for the future of the Museum. $

The Museum recently welcomed two new Board members, Carol Kaimowitz and Bradford Hu.

Lawrence Cunningham speaks on his new book, *The Warren Buffett Shareholder,* at a Museum event on April 23 in partnership with the Fordham University Gabelli Center for Global Security Analysis.

Bruce Gilbert

MoAF Evening Lecture Series Features "The Blockchain and the Future of Everything"

By Mindy Ross,
Director of External Relations

On February 27, the Museum hosted an evening program featuring some of the leading figures in blockchain technology and cryptocurrency. The event was held in partnership with the Fordham University Gabelli Center for Global Security Analysis. Speaking to an engaged audience of 350 Museum members, invited guests and members of the press, Museum President David Cowen introduced the topic and cited a quote from former Treasury Secretary Lawrence Summers: "Views differ on bitcoin, but few doubt the transformative potential of blockchain technology." His remarks were followed by a brief welcome from the Dean of the Gabelli School of Business, Donna Rapaccioli, and a program overview by Gerald Walker, CEO of ING Americas.

The program began with a fireside chat between Michael Casey, MIT Digital Currency Labs and Chair of the CoinDesk Advisory Board, and Ethereum Co-Founder Joseph Lubin. Mr. Casey encouraged Mr. Lubin to share his inspirational thoughts on the transformative potential of blockchain technology and decentralized economic models on financial transactions and other wide-ranging applications throughout society.

A panel discussion followed, moderated by Paul Vigna, reporter for *The Wall Street Journal,* featuring Cameron and Tyler Winklevoss, co-founders of Gemini, and Joshua Brown, CEO of Ritholz Wealth Management. There was a lively discussion on the future of cryptocurrencies, the investment landscape and the expansion of ICOs (Initial Currency Offerings). The panel highlighted potential opportunities to expand wealth creation through cryptocurrency investments, but also revealed some of the threats inherent in these alternative investments and the significant technical development and regulatory reform needed to bring these transactions into large-scale mainstream acceptance.

An engaging Q&A followed, with the audience submitting questions to all participants on a wide range of topics. The evening also marked the release of the newest book by authors Casey and Vigna, *The Truth Machine: The Blockchain and the Future of Everything.* A book signing and cocktail reception followed the formal program. Sponsors for the evening were ING, program sponsor, and Investopedia, media sponsor.

A video of the program is available on the Museum's YouTube channel, and several articles on the program are featured on the Museum's website. $

Left to right: Joshua Brown, Paul Vigna and the Winklevoss twins discuss the future of cryptocurrencies.

More than 350 people attended the Museum's recent blockchain event, which was held at Fordham University.

Photos: Elsa Ruiz

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TRIVIA QUIZ

WHO AM I?

Name the financier below. Submit answers to **editor@moaf.org** for a chance to win a **FREE** one-year membership to the Museum and a signed copy of *Ladies of the Ticker,* by George Robb.


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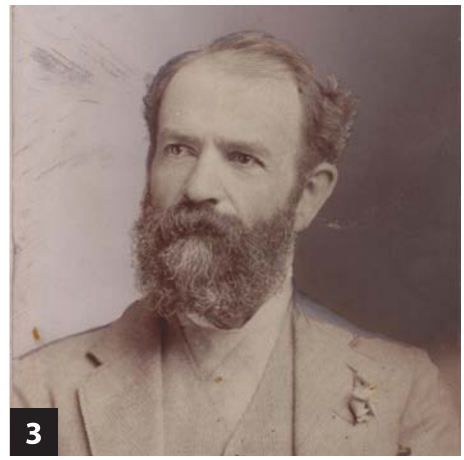
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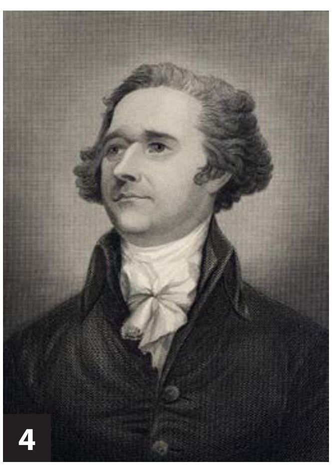
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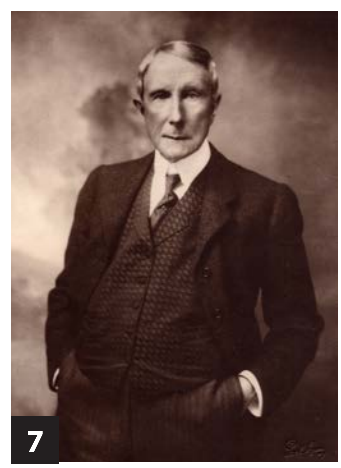
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Dreamland: A Coney Island Financial Failure

By Sarah Poole, Collections Manager

As spring finally takes hold in the Northeast after a long, snowy winter, many New Yorkers will start planning warm weather outings. Their destinations might include a trip to Coney Island, the historic seaside section of Brooklyn featuring a beach, boardwalk, amusement parks, aquarium and other entertainment. Famous for the original Nathan's hot dog stand and the Cyclone rollercoaster, Coney Island has been a resort destination since 1829 when developers started building hotels and expanding railroad and ferry access to the area. From the mid-1890s through World War II, Coney Island was the largest entertainment area in the country, home to a number of amusement parks, such as Sea Lion Park (1895-1903), Luna Park (1903–1944) and Steeplechase Park (1897–1964).

The most ambitious park to be built during Coney Island's heyday was Dreamland. Only in operation from 1904–1911, Dreamland was built by former state senator and real estate developer William H. Reynolds. Inspired by the instant success of Luna Park after it opened in 1903, Reynolds sought to build a competitor. The first hurdle to overcome to fulfill his dream was acquiring oceanfront property. When two adjacent parcels of land came up for auction in July 1903, Reynolds attended the auction, but the lots ultimately sold to two individual bidders for a total of $447,500. A couple of days after the auction, the developer revealed that the two winning bidders actually worked for him. Reynolds had feared that any aggressive bidding from him would trigger other developers to compete for the properties, driving up the price.

The next obstacle in Reynolds' path was a physical one: West 8th Street divided the two parcels of land that now belonged to him. The former senator was not intimidated by this challenge and wielded his political connections to support his venture. First, Reynolds recruited politicians and local businessmen to invest in his newly-formed Wonderland Company (the park was originally to be called Wonderland), which was incorporated in

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Dreamland Amusement Park, circa 1904.

August 1903 with $1.2 million in capital to construct the new park. He and his investors convinced the Bay Ridge Local Board to close West 8th Street between Reynolds' properties, combining them and effectively doubling their value.

Construction on Reynolds' park began in October 1903. Designed by the architectural firm Kirby, Petit and Green, Dreamland was modeled after the recent World's Fairs. It would be an elegant "white city" combined with the raucousness of a typical amusement park. Dreamland would copy the most popular rides at Luna Park and would supplement those with unique rides that would hopefully draw customers away from its competitor. Another key attraction at Dreamland was its beach property. Customers could use the beach without leaving Dreamland, whereas guests at Luna Park would have to exit and pay admission elsewhere to access the beach.

However, the elegance of Dreamland came with a price. Reynolds advertised that it cost $3.5 million to build his park (compared to the $1.5 million spent on Luna Park), much of it borrowed. Dreamland opened in May 1904 with $1.9 million in debt. It was on track to start paying over $65,000 per year in interest on the bonds it issued to raise money by 1906. Dreamland would have to be extremely profitable very quickly to get itself out of the red.

Reynolds ultimately did not see the revenue numbers for which he had hoped. The number of consumers in the market for amusement parks at the time could not support multiple parks operating in the same location, and the cost of traveling to Coney Island made it difficult to expand the consumer base beyond the wealthy. Competitors Luna Park and Steeplechase invested in improvements as well, forcing Reynolds to spend even more money to keep up. By 1910, the developer had begun investigating options to sell the park to the city as a last resort effort to earn a profit, but this plan failed when his creditors finally moved to recover the money they put out for Dreamland's mortgages.

The night before opening day in May 1911, Dreamland workers at the "Hell's Gate" attraction, one of the park's rides, spilled a bucket of hot tar and started a fire that decimated the amusement park. Dreamland collected nearly $400,000 in fire insurance, but this would not cover the more than $2 million in debt the park had accrued by that point. It took nine years to sort out the park's affairs, and in 1920 the city condemned much of the property and bought the land for less than $1.3 million.

Today, the Dreamland site is home to the New York Aquarium. Coney Island has experienced a recent revitalization with the reopening of a new Luna Park in 2010 and the continued operation of Deno's Wonder Wheel Amusement Park, which has been open since 1920. While the glamour and elegance of Reynolds' vision may be a thing of bygone days, the spirit of entertainment lives on at Coney Island. $

In Defense of Capitalism Part II: The Temporal Nature of Capitalism

By Brian Grinder and Dan Cooper

"The rootedness of insatiability in human nature leads to a very simple but fundamental insight: the economic problem cannot be solved by economic means alone, not even in a hundred years…"
— Miroslav Volf

In the last "Educators' Perspective" column, we noted increasingly negative attitudes towards capitalism, especially among young people, and argued that such attitudes cannot be ignored. Those who disparage capitalism need to be heard, but they also need to see the entire picture. Mere propagandistic platitudes will not do. Our younger generations, who often have a rather vague understanding of the workings of the capitalist system, deserve better. We started by defining capitalism as a privately-owned, minimally regulated economic system that seeks production efficiencies, generates profits, seeks to expand markets and encourages innovation. A relatively stable environment where long-term investments can be made is also essential to capitalism's success. In this column, we want to address the commonly held idea that capitalism is merely a stop-gap measure on the road to a superior economic system.

Marxism, socialism and progressivism all recognize the flaws in humanity, and all seek to remedy those flaws at some point in the future by economic means. Capitalism also admits to human failings but makes no such claim to a future economic remedy. The proponents of these alternate economic systems see capitalism's failure to envision a future heaven on earth as a fatal weakness. This leads most of them to conclude that since capitalism is merely transitory and inherently evil, it must eventually be replaced by whatever economic system they favor.

In *The Communist Manifesto,* Karl Marx argued that capitalism would soon undercut itself because the fierce competition among capitalists would reduce the number of capitalists. The few surviving bourgeois capitalists in their weakened and bloody state would be easy pickings for the proletariat. According to Marx, "What the bourgeoisie, therefore, produces, above all, is its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable."

Marx envisioned a revolutionary movement from capitalism to communism that was apocalyptic in nature. The revolution, he predicted, would occur in the most advanced capitalist nations — Germany and the United Kingdom — where the economic disparities between the bourgeois and the proletariat were the greatest. Once the proletariat controlled the means of production, a great improvement would mysteriously arise in human nature, and there would be no more need for government.

Unfortunately, Marx's revolution began in 1917 in Russia, an agrarian economic backwater. By any standard, the Russian Revolution was a great failure. Journalist Ian Frazier writes:

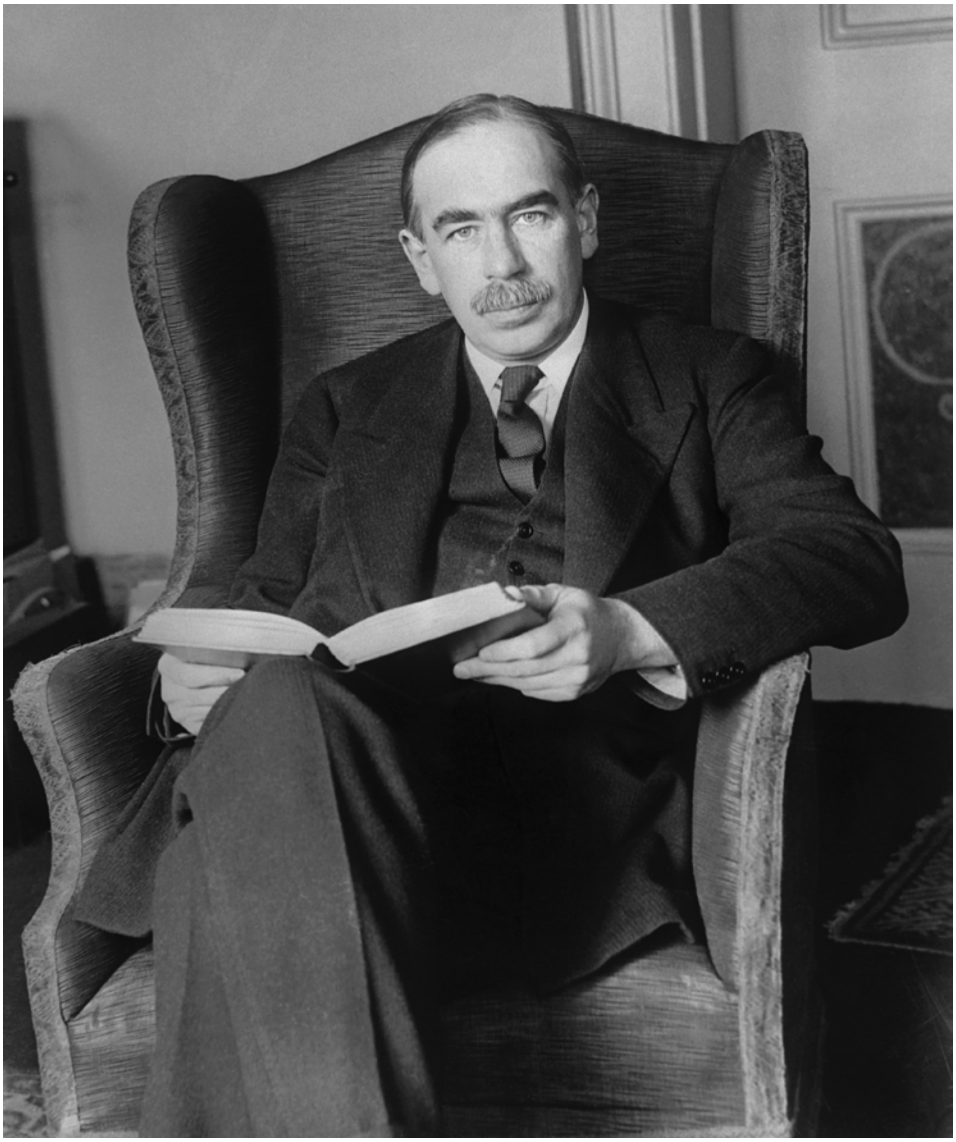
> The worldwide Socialist revolution that the Bolsheviks predicted within months of their takeover proved a disappointment. In fact, no other country immediately followed Russia's lead… Other countries eventually did go through their own revolutions, and of those, China's made by far the largest addition to the number of people under communist rule. This remains the most significant long-term result of Lenin's dream of global proletarian uprising.
>
> Fifty years after the Russian Revolution, one-third of the world's population lived under some version of communism. That number has shrunk significantly, as one formerly communist state after another converted to a market-based economy; today even Cuba welcomes capitalist enterprises from America. The supposed onward march of communism, so frightening to America in the '60s — first Vietnam, then all of Southeast Asia, then somehow my own hometown in Ohio — scares nobody nowadays.

The great communist experiment instigated by V.I. Lenin terminated abruptly. Instead of replacing capitalism, the communist revolution ran its tragic, unsuccessful course and died in 1991. The centennial anniversary of the Bolshevik Revolution occurred in 2017 more than a quarter of a century after the demise of the Soviet Union. Capitalism, ironically, lives on.

Progressives of the late 19th and early 20th century were less apocalyptic than the communists, advocating a movement that would gradually lead to the alleviation of economic disparity. This millennialist approach optimistically believed that economics held the key to solving the problems of mankind and bringing heaven to earth.

In 1930, during the Great Depression, John Maynard Keynes penned a famous essay entitled "Economic Possibilities for Our Grandchildren," in which he clearly expounded the hopes of the progressive movement. According to Keynes, "…assuming no important wars and no important increase in population, the economic problem may be solved, or be at least within sight of solution, within a hundred years."

He foresaw a situation where "for the first time since his creation man will be faced with his real, his permanent problem — how to use his freedom from



Bettmann

British economist John Maynard Keynes espoused the belief that only avarice, usury and precaution could lead to the end of capitalism.

pressing economic cares, how to occupy leisure, *which science and compound interest will have won for him,* to live wisely and agreeably and well."

Keynes longed for the day when the accumulation of wealth lost its luster. At that point, he hoped for "great changes in the code of morals" that would allow us to do away with "many of the pseudo-moral principles which have gag-ridden us for two hundred years, by which we have exalted the most distasteful of human qualities into the position of the highest virtues… The love of money as a possession—as distinguished from the love of money as a means to the enjoyments and realities of life—will be recognized for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease."

Keynes saw us returning to traditional religious principles where "avarice is a vice," usury "a misdemeanor" and the love of money detestable. Yet he warned that that time had not yet arrived. "For at least a hundred years we must pretend to ourselves…that fair is foul and foul is fair… Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into the daylight." In other words, only avarice and usury and precaution can lead to the end of capitalism.

Paul Samuelson, whose seminal textbook *Economics* was used by millions of undergraduate students, agreed with Keynes. He even included two key paragraphs from "Economic Possibilities for Our Grandchildren" in later editions of *Economics,* noting sadly that the affluence of the 1990s had not brought about "the slackening of economic ambition in America."

Economist Robert Nelson argues that Keynes, Samuelson and other progressives believe God works "through economic forces and is planning a glorious ending to the world based on the workings of rapidly advancing material productivity." However, with the end of Keynes's 100 years approaching quickly (World War II not withstanding), Nelson concludes "that the faith in the redeeming power of material progress is fading." Instead of a new paradigm, the problems of greed, avarice and unbounded ambition are as severe as ever. Material prosperity as a path to salvation is nothing more than an illusion. The answers lie elsewhere, but not in capitalism.

Philosopher Thomas Novak writes:

> The realist revolutionary does not believe that the overthrow of an evil system will guarantee a better to replace it. He does not glorify the revolutionary struggle or the revolutionary moment, for he does not conceive that the source of evil lies in the system to be overthrown. The realists do not imagine that there has been, is now, or ever will be a political economy from which evil will be banished. Wherever there are human beings, there will be evil. Because they do not believe in a paradise on earth, or in an innocent system, the realists are often dismissed as mere 'reformers.' In fact, their vision is revolutionary precisely because they reject the moral pretenses both of ancient traditional orders and of contemporary utopian orders. The utopias of the modern age strike them as too like the theocracies and moral tyrannies of the past.

Georges DeKeerle

Statue of communist leader Vladimir Lenin is toppled in Lithuania, 1991.

Capitalism is not a transitory economic state that will eventually be superseded by an economic paradise, nor is it inherently evil. It is a human institution that reflects all the warts and flaws of its creators. Like any human being, it can soar to great heights and sink to unbelievable lows. This is why capitalism needs government regulation and an ethical framework established by society outside of the realm of government to succeed.

The genius of capitalism is not that it promises heaven on earth through economic means, but that it is able to harness self-interest, with its great potential for evil, and use it for the benefit of mankind. This isn't accomplished by elevating self-interest to a position of prominence or superiority over other virtues, but by ensuring that it works within an ethical system that tempers it.

In the next "Educators' Perspective," we will investigate the role self-interest plays in capitalism. Is self-interest the key to success, or have economists overemphasized the dependence of capital markets on this supposed vice? Can economists help clarify self-interest's role in the economy? Are we doomed to a world of selfishness, or is there hope for a better future? $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

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The Bitcoin Premonition

Universal History Archive

By Edward Chancellor

Last December, the acting head of New Zealand's central bank, Grant Spencer, said that the most famous of crypto-currencies resembled a "classic" bubble. Bubbles aren't just about the madness of crowds—nor are they simply manifestations of loose monetary conditions. Although both of these factors have been present in the extraordinary rise and fall of bitcoin over recent months, every bubble also involves an anticipation of the future. The trouble is that the speculators' vision turns out to be deeply flawed.

It's true that bitcoin has much in common with great historic speculative manias. First, there's the telltale super-exponential price rise. The South Sea Company stock soared 10-fold in 1720. By late last year, the red-hot cryptocurrency was up more than 20-fold over the previous 12 months, peaking before Christmas just short of $20,000. Bubbles also exhibit tremendous volatility during their so-called "blow off"stage. Bitcoin's recent price oscillations suggest as much.

Then, there are the host of other crypto-currencies, conjured up by eager promoters to take advantage of the hype: Litecoin, Ethereum, Dash and Ripple, and spin-offs, or "forks," from the original, Bitcoin Cash and Bitcoin Gold. By the end of last year, there had been nearly 1,400 "initial coin offerings." These lesser-known cryptos call to mind the famous "bubble companies" of 1720 which followed in the wake of the South Sea Company. These speculative ventures covered a variety of activities from insurance to fish transportation, the most famous being "A company for carrying on an undertaking of great advantage, but nobody to know what it is."

Great bubbles attract speculators from far and wide. At the high point of France's Mississippi Bubble, also of 1720, tens of

Dutch satire engraved cartoon depicting the failure of the South Sea Company, the Mississippi Company and the bubble schemes of John Law and others, 1720.

thousands of foreigners flocked to Paris. The Internet provides a global dragnet to scoop up cryptocurrency enthusiasts. Coinbase, which offers bitcoin wallets, boasted some 12 million accounts last December—a three-fold increase over the course of the year. While the Mississippi boom minted the first paper "millionaires," bitcoin appeared to be conjuring up digital billionaires—including reportedly the Winklevoss twins of Facebook notoriety.

Speculative Tales

Every great bubble produces great anecdotes. Charles Mackay's famous account of the early bubbles, *Extraordinary Popular Delusions and the Madness of Crowds* (1841), is stuffed with memorable, if rather fanciful, tales. The Dutch tulip mania of the 1630s inspired several legends, including that of the black tulip (which inspired Alexandre Dumas's eponymous novel). Mackay narrates a story of a sailor inadvertently eating a priceless tulip bulb after mistaking it for an onion. Even the stories of broken speculators throwing themselves off skyscrapers after the October 1929 crash turn out to be urban legends.

Bitcoin has already produced a number of wonderful yarns. There's the computer programmer who used bitcoin to buy pizzas back in May 2010. At 2017, peak prices this snack was estimated to have cost more than $150 million. Another story relates how a British IT worker threw away an old computer hard drive which stored a number of bitcoins. A few years later, this digital fortune was valued at more than $125 million and the hapless techie was said to be planning to dig up a landfill site to salvage his lost fortune. When the Long Island Iced Tea Corporation, an unprofitable purveyor of soft drinks, changed its name late last year to the Long Blockchain Corporation, its share price soared nearly 300%.

George Soros argues that a "super-bubble" only forms after it has survived a severe test, imbuing speculators with a sense of invincibility. Bitcoin has weathered a number of such trials. After peaking at close to $1,000 in late 2013, it shed more than 75% of its value over the following 18 months, before starting its more recent, epic ascent. Bitcoin has also survived a number of outright scandals, including grand larceny at the Mt. Gox exchange when billions of dollars' worth of bitcoins (at current value, anyway) vanished into the ether.

MPI / Stringer

1754 drawing of Scottish-born financier John Law. The bubble created by Law's Mississippi Company is relevant to recent events in the cryptocurrency world.

Easy Money

Great bubbles occur during periods of easy money, when interest rates are low, or falling, and liquidity is super-abundant. The Dutch tulip mania, for instance, appeared in the mid-1630s at a time of large foreign capital inflows into Holland, which spurred money printing by Amsterdam's Wisselbank, Europe's first central bank. Dutch interest rates were also far below their past average levels at the time.

Recent monetary conditions have much in common with the 1630s. At the beginning of 2017, the world's largest central banks were expanding their balance sheets like never before. At the time of bitcoin's blow-off, some $11 trillion worth of bonds worldwide were offering negative yields. The American stock market was more expensive than at any time save for the dotcom peak in early 2000. This left savers with an uncomfortable dilemma, either speculate or starve.

The ideal speculative object is one which provides no yield and is therefore impossible to value. Think of those tulip bulbs, gold in late 1970s or contemporary art in recent years. Bitcoin, which produces no income, has a restricted new supply and whose ownership is concentrated in

relatively few hands (some 95% of outstanding coins are said to be held in just 4% of accounts) is the most perfect speculative asset ever devised. Throw in some leverage, open a futures market and there's no limit to bitcoin's potential upside.

The Visionary Speculator

The word speculator derives from the Latin word for a "look out." The financial variety looks out into the future and backs this vision with money. Great bubbles are often uncannily accurate premonitions of the future. The 17th century mania for tulips anticipated the development of the country's flower industry, now one of Holland's largest exports. Britain's railway mania of the 1840s reflected an enthusiasm for the commercial and cultural potential of this new transportation technology. Likewise, speculators in the dotcom bubble foresaw how the Internet would profoundly change our lives.

John Law's Mississippi Bubble appears most relevant to what is going on today in the cryptocurrency world. Law believed that money needn't be backed by any commodity. The Scottish-born projector established a bank, the Banque Générale, which issued a paper currency and demonetized gold. Law used the newly-issued bank notes to support the share price of his Mississippi Company and reduce the rate of interest. In other words, he provided the world's first quantitative easing experiment.

Law's vision was prescient. We now live in his world of paper credit and central bank money. However, it was also deeply flawed. Law tried to achieve, in the space of a few years, what would eventually take two and a half centuries to accomplish. Only in 1971 was the link between currencies and gold finally severed with the collapse of the Bretton Woods currency accord. When confidence in what Law called his "system" collapsed, the Mississippi Company's share price fell by 90%. Law, who in his heyday boasted of being the world's richest man, died in penury in Venice. Speculators from the tulip mania to the dotcom frenzy have learned the hard way that in investment to be early is to be wrong.

Bitcoin and the Nature of Money

Exponents of cryptocurrencies are the heirs to John Law. They aim to cure today's monetary problems — a lack of confidence in paper credit and central bank money — with a new technology, the "distributed ledger" or blockchain. Bitcoin possesses many of the characteristics of a proper currency: it can be divided, stored (provided it's not with a dodgy broker where it's liable to disappear) and transferred. And its supply is limited.

Money is just a social technology which has been through many previous incarnations — among the exotic varieties of cash listed by Paul Einzig in his book *Primitive Money* (1948) are gin, jam, mulberry cakes, rat traps (in the Congo) and woodpecker scalps. Most of our current money is already held in digital form as electronic book entries at the bank. So at first glance, bitcoin with its distributed ledger appears to be a straightforward advance on current financial technology.

Its fervid believers have even more grandiose ambitions, however. They claim that cryptocurrencies will bring about the end of state-controlled money. Their vision is borrowed from the Austrian economist Friedrich Hayek, who envisaged a denationalization of money that would bring about an end to both inflation and deflation, cure unemployment and, by rendering redundant the easy-money-peddling central banks, would limit the reach of the state. What's not to like?

The trouble is that bitcoin enthusiasts confuse the typical features of money with its true character. Admittedly, this is a difficult subject. People have argued about the nature of money since the dawn of civilization. Mainstream economic theory has little to say on what money is, assuming it a mere contrivance to do away with the bother of barter. In the era when bank notes were redeemable in gold, most people believed that money contained the intrinsic value of the precious metal. But as Law pointed out, "Money is not the value by which goods are exchanged, but the value for which they are exchanged." Simply put, gold derived much of its value from its use as money rather than the other way around.

Where, then, does money derive its value? From the earliest times, going back at least to Mesopotamia in the third millennium BC, money has been defined as a unit of account authorized by government for the payment of debts. The state theory of money holds that money is a credit issued by a sovereign, whose value comes from the fact that it can be used to pay taxes. Governments have tenaciously maintained control over the unit of account, a key aspect of sovereignty. The law prescribes this official money as legal tender for the repayment of debt.

Law and his contemporaries had another insight, namely that circulating IOUs are in fact a form of money. For instance, in early 18th century England, much of what constituted money comprised bills of exchange issued by merchants against future receipts. At the same time, early English bankers were creating money through the act of lending out their deposits. This bank money was backed by claims of real economic value. The credit theory of money maintains that money is just circulating credit. "Currency is ephemeral and cosmetic: it is the underlying mechanism of credit accounts and clearing that is the essence of money," writes Felix Martin in his 2013 book *Money: The Unauthorized Biography.*

The economic system commonly referred to as capitalism consists of a vast network of credit relations. Credit money is its key feature. Hayek, of course, realized this. His proposals to strip the government of its money monopoly envisaged the replacement of a dominant central bank with competing private money-issuing banks. Competition between the currency banks would thus produce a sounder currency. But Hayek's money would still be of the credit variety.

Bitcoin and other cryptocurrencies are a different kettle of fish. They purport to be non-credit currencies — that is, monetary assets without corresponding liabilities. Yet all money is by its nature a claim upon society; otherwise, it cannot be spent. Why should society wish to confer vast monetary claims on the enterprising nerds and opportunistic speculators currently in possession of crypto-fortunes?

More importantly, because cryptocurrencies lack a mechanism for creating credit, they are not well suited to the capitalist economy. Imagine what would happen if bitcoin were accepted as the monetary unit of account. The result would be a scarcity of the digital currency, whose maximum issuance is supposedly limited by design to a total of 21 million units, followed by a severe economic contraction and stagnation without end.

This is not going to happen. Not just because it makes no economic sense but because governments are not going to

Elsa Ruiz

Digital billionaires Cameron and Tyler Winklevoss discuss their thoughts on the future of cryptocurrencies at a Museum of American Finance event, February 27, 2018.

relinquish their monopoly over money any sooner than they will surrender their monopoly on violence. However desirable in theory it may be, Hayek's proposal to denationalize money was just a pipe dream. As the Nobel laureate economist wrote, "Everybody knows that if such a private experiment promised to succeed, governments would at once step in to prevent it."

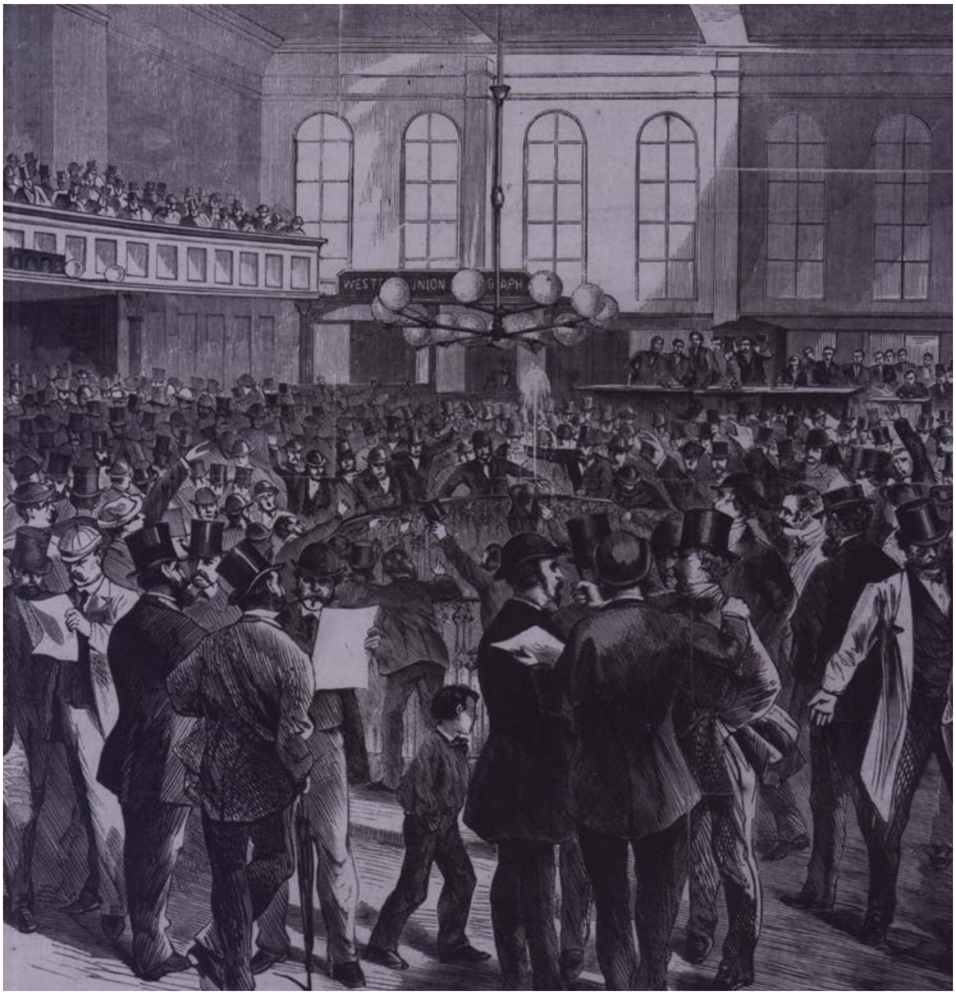
Everybody knows, that is, apart from the speculators in cryptocurrencies. Some of them privately concede that bitcoin may never become money as such, but say that it will retain value as an asset in the same way that gold survived its demonetization. Bitcoin, in other words, has intrinsic value as a kind of digital commodity. A counter-argument is that gold has a very long history, an extraordinary durability and an inherent beauty which lends it enduring luster, while bitcoin is just a clever piece of open-source software.

Perhaps a cryptocurrency will one day establish itself as a new form of money—in the very long run. But if that time ever comes, bitcoin itself is unlikely to be a contender. Its technology is woefully inefficient. Transactions on the network are too expensive, too energy intensive and take too long to settle. Amazon won't take payment in bitcoin. The US government won't accept bitcoin for the payment of taxes. In short, bitcoin as money is going nowhere.

There is a Wall Street tale which supposedly originated with the California Gold Rush. Prospectors who found gold would spend some of their newfound fortune on a tin of sardines. When their luck was down, they would sell all their possessions, including the sardines. So the tin passed from one hand to another, until one day a naïve forty-niner opened it only to find that the sardines were rotten. "Didn't you know," said his companion, "those sardines were only good for trading, not for eating." Bitcoin resembles the prospector's sardines. It is perfect for speculating, but not good as money.

For students of speculative manias, explosive price movements suggest another premonition, namely that the end is nigh. By April Fool's Day, bitcoin's dollar price was down around two-thirds from its December peak. When the tulip boom ended, the price of Gouda bulbs fell from 60 guilders to the equivalent of around 10 cents, a price decline of 99.8%. Given that the crypto has soared far higher than humble tulips and has even less intrinsic value, a decline of even greater magnitude is not out of the question. $

Edward Chancellor is the author of Devil Take the Hindmost: A history of Financial Speculation. *This article is adapted from a piece published by Reuters Breakingviews.*



Collection of Museum of American Finance

Scene in the Gold Room during the panic on Friday, September 24, 1869.

Wall Street's "Weak Link"

WILLIAM HEATH

Before business opened on the Stock Exchange yesterday morning rumors were rife that a great failure was imminent. For reasons that were appreciated in Wall-Street it was quickly concluded that the weak firm was William Heath & Co., of No. 78 Broadway. The anxiety of that house's customers was not long in making itself felt. Demands poured in on the firm for settlements of various kinds and for immense sums. The result was shown in the prompt announcement of Mr. Heath in a letter to the Exchange that his house was unable to meet its obligations.

The New York Times
October 3, 1885

By Julia Bricklin

One of Wall Street's brightest stars in the mid-19th century was William Heath, founder of the eponymous William Heath & Co., a brokerage that had offices in New York and London. In his early 20s, the Massachusetts native was better known as the "American Deer." At six foot, six inches tall, gaunt and angular with a drooping moustache, Heath cut a conspicuous figure on Broad and Wall Streets. In the early to mid-1860s, he was a famous "pad-shover," a messenger that raced between the Exchange and the broking houses who carried pads of paper from place to place upon which were written current prices of various securities and buy and sell offers.

The nickname "American Deer" — or sometimes "American Reindeer" — followed him even as his offices and position in life became bigger and loftier. But soon, Heath's fame for his quick maneuvering, photographic memory and market astuteness would turn into notoriety, as his increased bear speculation with the likes of Jay Gould and Jim Fisk would cost him his business, his wealth and his life.

"In an age without tickers or electricity," writes E.H. Harriman biographer Maury Klein, "the brokerage business was a gigantic paper chase. Being a pad-shover offered any bright, alert boy the chance to observe every aspect of the business from the purely technical nature of how transactions were made to the psychology of behavior under stress as revealed by the men who gave and received orders."

Still, Heath and the more sophisticated of his peers lost their jobs in 1867. The speed of Edward Calahan's ticker invention was far faster than notes delivered by human muscle. Thus, at age 29, Heath decided to join the Open Board of Brokers, which merged with the New York Stock Exchange in 1869.

Heath was born in Brookline, Massachusetts, to Charles and Caroline Heath. His father was a broker, and son quickly took to the excitement of it. In his mid-teens, the younger Heath trained with the banking house of Blake Brothers & Co. and then began trading with James Murray Howe & Co., both in Boston. In 1860, he accepted a position with Nevins & Co., as their New York representative, and he took an office there at 38 Pine Street. It was there that his athletic price running made him famous in Lower Manhattan.

In early 1867, Heath formed his own brokerage firm, with another gentleman named James Ellis. The pair did quite well, offering careful yet bold speculative opportunities to customers who wished to invest in America's financial reconstruction

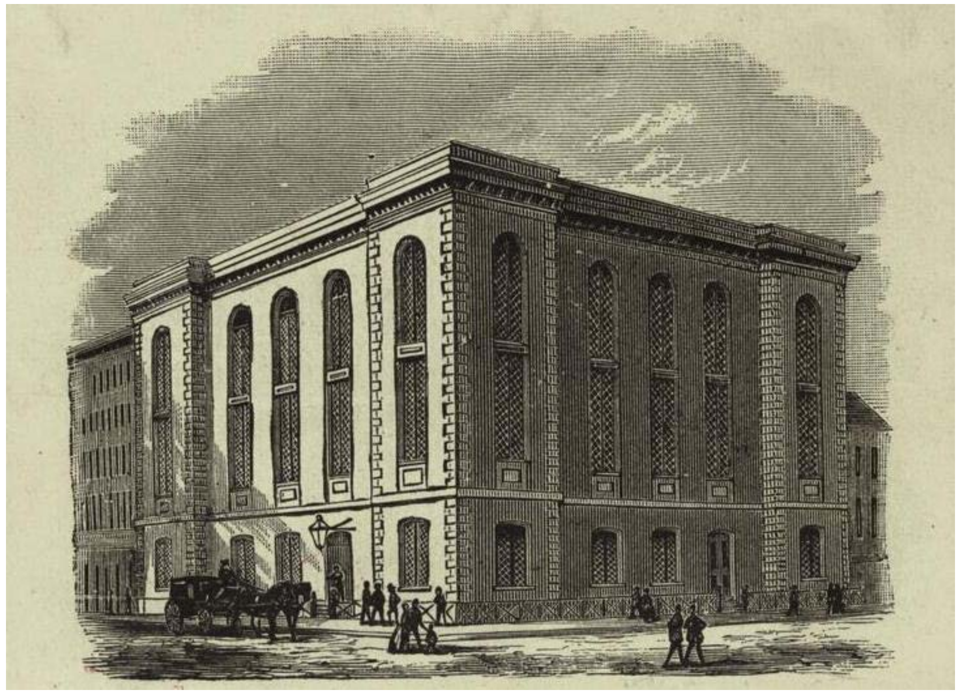
efforts after the Civil War. Popular stocks for the firm were the Pacific and Atlantic Mail companies, Western Union Telegraph, various railroad ventures stemming from the Great Lakes regions and, of course, gold.

It was gold — and Heath's stock market acumen — that attracted Robber Barons Gould and Fisk to his firm, and it was Heath's intense focus on market strategy that distracted him from societal rumblings about Gould and Fisk's tremendous greed. Thus, Heath found himself as the unwitting lynchpin to one of the biggest financial scandals of all time: September 24, 1869 — otherwise known as "Black Friday."

The Black Friday Scandal, also known as the Gold Panic, had its roots in the federal government's aim to shore up the post-war economy by limiting the amount of greenbacks (paper dollars) in circulation and putting more gold into the economy. But Gould and Fisk had other plans. The two men, president and vice president of the Erie Railroad, respectively, were known for having issued fraudulent stocks, bribing politicians and judges, and maintaining a relationship with Tammany Hall's William "Boss" Tweed.

Gould wagered that because there was only around $20 million of gold in circulation at a given time, a speculator could potentially buy large portions of gold, corner the market, drive the price up as high as possible and then sell for a hefty profit. But if President Ulysses S. Grant ordered the Treasury to sell off large amounts of gold to drive prices down, the scheme would not work. So Gould set about manipulating the President of the United States.

In an effort to thwart Grant's plan to dump gold back into the market, Gould and Fisk convinced Abel Rathbone Corbin, the President's brother-in-law, to help them get close to the President and persuade him to halt the government's plan. (Corbin did not do this out of any ideological belief system — Fisk and Gould deposited $1.5 million dollars into his personal account.) Corbin convinced Grant that keeping gold prices high would benefit US farmers who sold their harvests overseas. Unfortunately for the manipulating pair, Grant became uncomfortable with Corbin's excessive interest and, in the end, ordered the sale of millions of dollars in gold. But Gould and Fisk had already



William Heath spent six weeks in the Ludlow Street Jail, at the corner of Ludlow and Grand Streets in New York City, beginning on November 19, 1885.

purchased large quantities of gold, and while they lost money when the government's gold hit the market on September 24, 1869, they were not completely ruined like thousands of duped speculators.

Fisk and Gould did not work in perfect tandem during this operation — both had reason to distrust the other and keep certain pieces of knowledge to themselves. But one thing they agreed upon was that the quiet, surreptitious purchasing of gold required the services of a brokerage house that could keep calm, keep quiet and employ an army of sub-brokers to move large amounts of gold to and from accounts. Starting the first week of September 1869, for 10 days the men used only one brokerage firm to handle gold transactions for them as a pair. This firm was William Heath & Co.

By September 23, Heath's firm had — simplistically speaking — purchased more than $3 million worth of gold for Gould and Fisk (more specifically, for their firm, Smith, Gould, Martin & Co.). By Friday, September 24, through their army of brokers — employed by Heath — Fisk and Gould's buy-and-sell machinations drove the price of gold up to nearly $150 per share. But by this time, *The New York Times* was onto them, and printed its assessment:

> [Fisk's] presence in the Gold Room was signalized by the rapid rise in gold [and] the other engineers of the movement were not idle... The highest official in the land was quoted *as being with them,* and he, of course, controls the actions of the Secretary of the Treasury and the New York Assistant Treasurer... Although this must have been known to be false, there were abundant rumors and suspicions insidiously spread around the street to create the belief or fear with good men that the administration would not interpose by further sales of gold from the Treasury.

This signaled to Gould that President Grant would soon realize what was going on and would likely release Treasury gold into circulation. He summoned Fisk to meet him at Heath's office, outside of which he installed three burly Erie Railroad guards. Each gentleman placed himself in a different office at Heath & Co., which traders now dubbed the "Gold Room." In his side of the office, Fisk ordered Heath's agents to buy all the gold they could at $145, keeping up a public front and telling would-be buyers that they expected the price to rise to $200 by the end of the trading day.

Meanwhile, from another room, Gould instructed Heath agents to sell as much of his hoarded gold as possible, knowing that it was only a matter of hours before the price dropped precipitously. It did so later that day, plummeting from a high of $160 to $138, when Treasury Secretary George S. Boutwell sent a telegram to the "Gold Room" at Exchange Street and Broadway: "Sell four millions gold to-morrow, and buy four millions bonds."

The Black Friday gold crash caused a ripple effect of financial devastation and ruin for both eastern traders and midwestern farmers. Subsequent lawsuits and a Congressional investigation yielded few consequences for Fisk and Gould, owing to their ability to hire the best legal defense teams. Heath found himself the subject of innumerable congressional and local judicial inquiries, examining just exactly what amount of gold he bought and sold, what his margins were at any given time and why he did or did not accept payment for gold stocks when purchasers said they tried to sell it back before the crash.

Heath's profits on this wild speculation are not known for sure, but his commissions were in the hundreds of thousands of dollars, according to court records. In spite of the fact that he came out of legal scrutiny relatively unscathed, his wife, Elizabeth, moved to Europe with their two children around 1870 — some of Heath's obituaries hint that she had family money of her own, and that it was best to keep it away from any future legal proceedings.

Mrs. Heath may have known something about her husband's high tolerance for risk, or perhaps she knew something about his methods. In any event, Heath dissolved his partnership with Ellis, added a partner named Charles E. Quincey, and immediately re-formed a brokerage firm, also called "William Heath & Co." He began working almost exclusively for Gould and Gould's close associates. For the next few years, as Gould built up a system of railroads in the Midwest and West, Heath helped him buy up stocks in a market pushed down by the Panic of 1873, and he found it convenient to "go abroad" almost every time the pair determined a suit over Black Friday margins was about to commence.

Along with Gould and a few other high-risk, high-stakes clients, Heath added to his inner circle of customers Henry N. Smith, formerly of Smith, Gould & Martin. Smith despised Gould, owing to the latter's trickery by urging Smith to sell Northwestern Railway stock short while Gould built up a big long position buying as much as he could. Smith got suspicious and had Gould arrested on charges of looting the Erie Railroad treasury. Neither Gould nor Smith had any problem with Heath working with the other; Heath was, according to a Gould biographer, "a master at keeping secrets. None of his customers could ever learn what his other customers were doing."

It was probably because of Heath's ability to keep everything so close to the vest that his client G.P. Morosini, Gould's bookkeeper and attorney, was allegedly shocked when he came to collect about 100,000 stocks he had on deposit with Heath. The problem was, Heath did not have them. He had been using Morosini's stocks as collateral with the bank in order to cover the debts of Smith, who was one of his biggest clients. Even decades later, *The Wall Street Journal* and other financial papers recounted the horrifying chain of events:

> Suddenly, a great light broke upon Henry N. Smith, who still was heavily short of stocks, and whose contracts showed enormous paper profits; conditions had been improving, but stocks had not been going up. But when he started in to cover his shorts he found the market bare of stocks. It was a condition that would not reveal itself until someone, like himself, should begin to buy on a large scale. When his brokers found that the stocks were not forthcoming readily they were instructed to bid up for them…their buying limits were raised. The higher they bid for them the more pronounced became the scarcity of stocks.

Generally speaking, Heath and Smith and their close circle of stock men had been in the bear market for so long that they misjudged the continued, upward trend of rail, municipal and commodities stocks. The second half of 1885 was one of the greatest bull markets Wall Street had seen thus far. It appeared that Heath used Morosini's stocks as collateral to borrow money from the banks — probably to cover Smith's margins — and therefore could not deliver the stocks.

On November 19, 1885, sheriff deputies arrested Heath at his Pine Street office and brought him to the Ludlow Street Jail. He sent telegrams and letters to everyone he knew with any means in an effort to raise the $500,000 bail set for him. Eventually, the judge reduced his bail amount, and his friends were able to raise $10,000 to have him released.

But his six weeks in the dank Ludlow Street Jail inflamed the tuberculosis Heath had been battling for years. His wife, Elizabeth, returned from Paris to nurse him back to health, which she tried valiantly to do even as creditors interrogated her night and day to try to ascertain whether she had hidden any of the couple's financial assets in Europe. Heath quickly declined, even in the comfort of his Livingston, New Jersey manor. The quiet, presupposing "American Deer," known at the end of his life as "the Bear Operator," passed away on March 3, 1886.

Months later, the remaining assets of William Heath & Co. were quietly swept up by Gould. $

Julia Bricklin is a frequent contributor to history magazines, and the author of America's Best Female Sharpshooter: The Rise and Fall of Lillian Frances Smith *(University of Oklahoma Press, 2017).*

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WARREN BUFFETT

Learning Through the School of Hard Knocks

By Glen Arnold

Many people regard Warren Buffett, the greatest living exponent of the value school of investing, first as an important teacher of investment principles, and only second as a wealthy individual. Of course, the fact that he has made a tremendous amount of money adds credibility to his teaching because he has empirically proved the soundness of his philosophy. But for many, it is the acuity of his ideas and simplicity of his approach which appeal because his methods seem accessible to all.

Buffett was not born with these ideas, nor did they come to him in a flash of light early in his career. He had to keep searching, building and failing, over and over, until he was proficient. The story of his struggle is encouraging because it emphasizes that success in stock investing does not rely on genius, but rather on a continual focus on good principles.

Buffett's Early Learning

Buffett began investing when he was 11 years old. He put $120 in savings into Cities Services, and from there he slowly built his portfolio. At age 20, after many business ventures and investments, his portfolio only amounted to $15,000. In addition to being short on money, he suffered from a poverty of investing ideas.

Buffett's real education began in 1949 when, as a 19-year-old, he read Benjamin Graham's book, *The Intelligent Investor*. He later enrolled in Graham's Columbia University course and subsequently worked for him as a security analyst, from 1954–1956. In addition to learning a great deal from Graham, he also made some spectacular investment deals around this time. They included a 48% gain in a few months from GEICO shares when he was 21 years old, and the Rockwood chocolate chip bonanza, in which the 24-year-old Buffett more than doubled his investment, making $13,000 to add to his growing fund.

The Buffett family at home in Omaha, Nebraska, in 1956. Left to right: Howard (17 months), Susie (2½ years), Warren and Susan.

The Benjamin Graham School of Practical Investing

By the time Buffett met Graham in 1950, Graham was 56 years old and had been through some rough times running small investment funds. Prior to the Great Crash, Graham was a relatively cautious investor, but not cautious enough when the downturn approached. Between 1929 and 1932, 70% of the $2.5 million fund he was running for clients was lost or withdrawn.

Graham had witnessed valuations made on earning projections made in an optimistic mood, and he had seen investors buy in the hope of selling to a greater fool who would pay even more because the price had gone up. He had experienced buying based on charts, tips, no real knowledge of the business and insider information. The result of his soul searching was the foundation of the value school of investing, which so influenced Buffett and is adhered to by thousands today.

Following the Great Crash, many observers concluded that it was pointless to assess share value. After all, if in 1928 a share could be worth $100 (according to the market price), and 15 months later worth only $5, who was to know what the real value was? A far better method, they said, was to focus on assessing the mood of other share buyers. When other buyers think the price will go up, the investor should try to buy before it does. This focus on the market, rather than on the company and its performance in serving its customers, is one distinguishing feature of speculators, as opposed to investors.

Defining Investment

Graham and his co-author David Dodd provided the following contrasting definitions of investing and speculation in their book, *Security Analysis,* in 1934:

> "An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."

There are three essential elements in this definition:

1. Thorough analysis: When people invest in a business, they will own a small portion of it and should, therefore, ask many of the same questions they would ask if they were buying the whole business. For example, what is the turnover and profit history? Does it have a good reputation with customers? This type of analysis requires rationality, independence of mind and a critical examination of the facts. For Graham, this analysis was primarily focused on the proven facts from the quantitative side. He recognized the importance of the qualitative, such as the power of a well-recognized brand or the quality of the managerial team, but his 1929 experience made him cautious about putting too much weight on his assessment of the business prospects and management's ability and integrity.

2. Safety of principal: It's very important to build in a margin of safety when buying shares, rather like the extra safety built into a road bridge. A bridge is not built to withstand only historically recorded wind speeds and other loads; it is built to standards well beyond that. Similarly, investors should only buy shares when there is a large margin of safety between the purchase price and their calculation of intrinsic value.

3. Satisfactory return: Investors should avoid getting caught up in over-optimism or greed, which will often lead them down a path beyond their capabilities, or stretch the risk limits they can stand. The irony is that great investors act with safety of principal in mind and aim only for a satisfactory rate of return. Yet, in the long run, they outperform those who take the path of higher risk.

Warren Buffett's Other Lessons from Graham

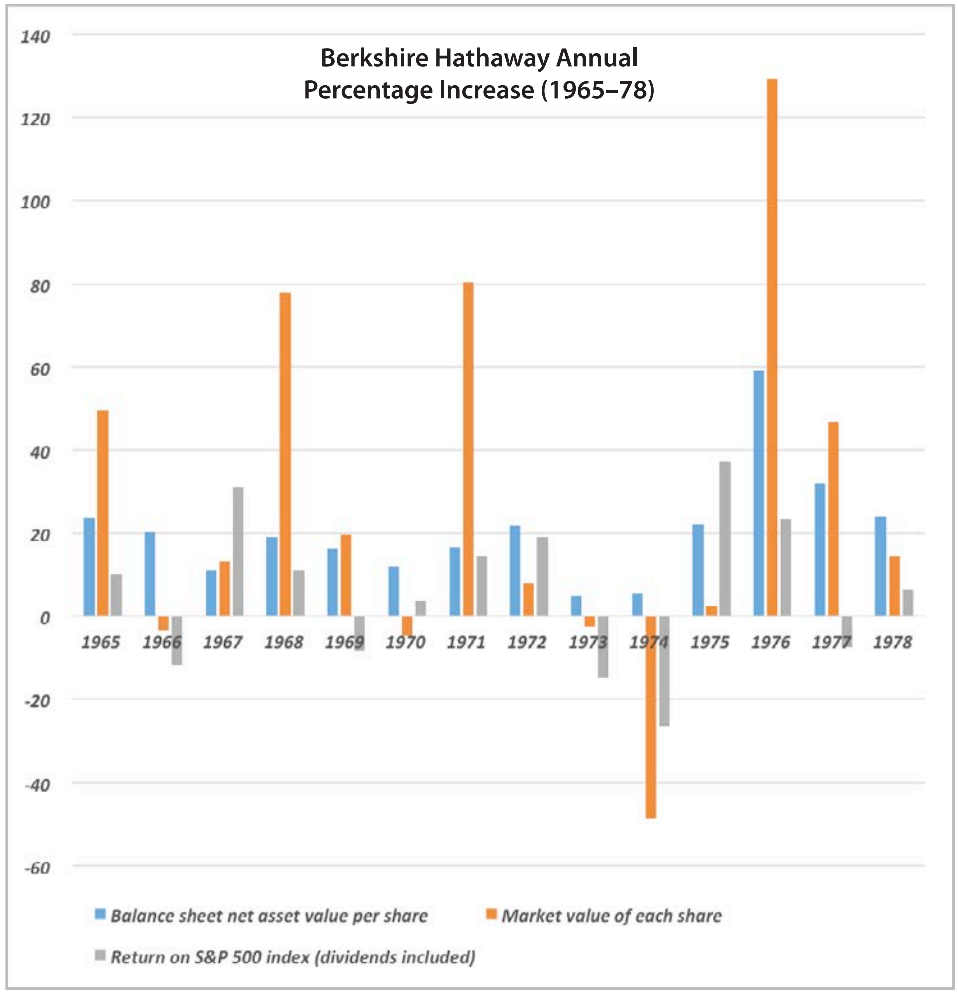
Graham learned that returns depend on the investor's knowledge, experience and temperament. First, the investor needs to understand the business world and how it works. Some grasp of accounting, finance and corporate strategy is essential, though this can be enhanced and developed over time. Having a curious mind is a prerequisite, but an investor does not have to develop the level of knowledge required purely from his own experience. A lot can

be learned vicariously from other people's mistakes and successes.

Temperament is more important than IQ when it comes to being a good investor. Graham taught Buffett that the most intelligent people often make poor investors because they frequently lack the right mental approach. For example, if they are highly rational, they get frustrated at the irrationality in the market and often cannot figure a way of exploiting irrationality. They may also fall in love with their predictions, thereby neglecting to build in a margin of safety. Other aspects of bad temperament for investors are the tendency to follow the crowd when it is panicking, or to become irrationally exuberant when everyone else is. Then, there are the people who can't help noticing others making money on a new idea for speculative selection, or the latest technology, and want some of the action. In short, the investor's own worst enemy is often himself.

Graham emphasized to Buffett that he must understand the focus of other people in the markets if he wanted to outperform them. For example, many investors are primarily concerned with expectations concerning the future, such as how many customers a company would have over the next 10 years, which cannot be predicted with any degree of certainty. Meanwhile, they pay little heed to more important details, such as the balance sheet, earnings history and share price. The lesson is to not become engrossed in the "story" of a business while ignoring the "facts" about it.

Graham created a wonderfully simple parable of "Mr. Market," which goes something like this: You are in a business partnership with Mr. Market. You own 50%, the same as he. Every day, Mr. Market comes to you offering either to buy your half of the business, or to sell his half to you. He is very obliging indeed — in fact he'll offer prices throughout the day. The thing is, Mr. Market has moods. Sometimes he is very optimistic and offers you a high price for your share of the business. Other times he is down in the dumps and just wants out; he will sell his half to you at a low price. So, what you have to ask yourself is whether you should value your shares based on the prices that Mr. Market is currently offering. Of course, true investors will carry out their own analysis and compare their intrinsic value calculation with Mr. Market's offer.



Source: Letter from the Chairman of Berkshire Hathaway (2016)

The Graduate from Graham and Doddsville

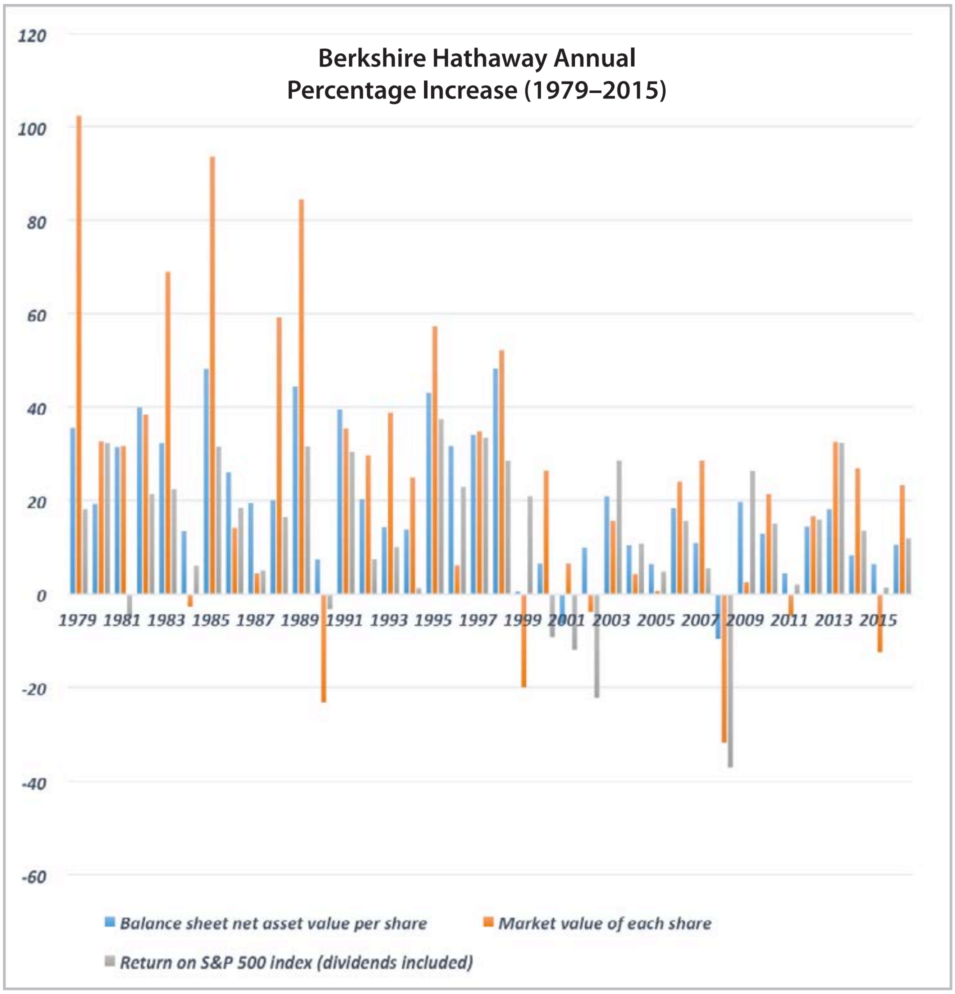
Upon returning home to Omaha, Nebraska, following Graham's retirement, 25-year-old Buffett set up an investment partnership with seven relatives and friends. They had $105,000 available, and Buffett made the investment decisions. The partnership's returns far exceeded the stock market, as Buffett found bargain after bargain — such as Sanborn Maps, which was sitting on net assets (mostly tradable securities) — worth much more than its share price. Buffett's partners made about a 50% return on that investment when Buffett was 29 years old.

Other people observed what Buffett was doing and wanted him to invest their money, so he set up other partnerships, eventually bringing them together in one group, the Buffett Partnership Limited (BPL). He found some solid companies that were temporarily out of favor with Wall Street, such as American Express (a tripling of share price) and Walt Disney (a 55% return).

Between the start of the partnership phase of Buffett's investing career (first full year 1957) and near its end in 1968, the Dow grew by 185.7%, but a dollar invested with Buffett went up by 2,610.6%. After Buffett's fees, a typical partner who had invested $1,000 in 1957 would have over $15,000 within 12 years. In contrast, each $1,000 invested in the Dow in 1957 increased to only $2,857.

Berkshire Hathaway Enters the Scene

In 1962, Buffett used a portion of his partners' money to buy shares in a down-at-heel New England textile company, Berkshire Hathaway (BH). The price of each share averaged $7.50. By May 1964, BPL held 7% of the shares of BH. The dominant shareholder and executive was Seabury Stanton. He made a deal with Buffett for Berkshire Hathaway to buy BPL's BH shares for $11.50 — 50% more than Buffett had paid to acquire them. Then, Stanton thought he'd chisel Buffett. In a petty way,



Source: Letter from the Chairman of Berkshire Hathaway (2016)

he pitched the formal offer at only $11.375. Buffett bristled at Stanton's behavior and chose not to sell.

Instead, Buffett made what he later called "a monumentally stupid decision." It was plain to see that New England textile mills were going out of business, as they rarely made profits due to cheap imports. BH itself had closed most of its mills as it failed to compete. But Buffett was upset, and so he began to aggressively buy more shares (great investors are not perfectly rational). By April 1965, BPL held 39% of BH and formally took control of the company, using one-quarter of the funds under Buffett's command to do so.

Buffett's self-confessed "childish behavior" resulted in him having to organize "a terrible business." As a result of losses and share repurchases, Berkshire's balance sheet net worth was only $22 million. It had no excess cash and $2.5 million of debt. Buffett put strict limits on further investment in textile machinery and other assets. He gradually moved the capital of the original business to other areas. Because he was a capital allocator with a knowledge of many types of businesses, and not a textiles man specifically, he was able to spot better investment opportunities than those who were focused on only the textile industry.

Transforming Berkshire

In 1967, Buffett made a great leap for BH by getting it to buy the insurance company National Indemnity in his home town of Omaha for $8.6 million. For Buffett, one of the attractions of insurance companies was the pile of cash (the "float") sitting within the firm, created because policyholders pay up front, but claims occur later. This float could be invested. Buffett later bought many more insurance companies and made very good use of their floats too. The National Indemnity acquisition was followed by another masterstroke: the purchase of a chain of branded candy stores in 1972 for $25 million. See's Candies has since generated more than $2 billion for BH to invest elsewhere, and it is still pumping out money today.

Many other brilliant investments were to follow, resulting in extraordinary growth for Berkshire. Between 1965 and 1978, the annual compound rate of growth of the S&P 500 was 4.63%. But for Berkshire, the compound rate of growth in per share book value was 21%. It is not until you see the effect of that differential on final dollar amounts that you really appreciate the truly stunning performance of Buffett. Whereas the S&P 500 rate of return resulted in a $1,000 investment in 1965 being turned into $1,885 by December 1978, in that same time a $1,000 investment in BH shares grew to be worth over $14,000.

Buffett's Early Mistakes

All investors make mistakes. A key characteristic of Buffett is that he continues to learn from his investing mistakes. Some of his early errors include:

GEICO Buffett invested about 65% of his net worth ($10,282) in GEICO in 1951, and he sold his shares in 1952 for $15,259. Not a bad return, but consider this: if he had held onto those shares for the next 20 years, he could have sold them for $1.3 million in the late 1960s. The painful lesson was in the *inadvisability of selling a stake in an identifiably wonderful company.*

Cleveland Worsted Mills Cleveland Worsted Mills' share price was less than half the business' net current asset value in 1951, so market capitalization was under half the amount tied up in the current assets after deduction of all liabilities. And it paid a high proportion of its earnings in dividends. After buying in, Buffett discovered that the company faced intense competition from textile plants in the southern US states and from synthetic fibers. It made large losses, cut its dividend and its share price dropped. Buffett *learned the importance of strategic competitive positioning and pricing power.*

The Gas Station Buffett bought an Omaha gasoline station in partnership with a friend. Unfortunately, it was sited opposite a Texaco station which consistently outsold them. Amazingly, Buffett even took up physical work to help out — on weekends he actually served customers. He learned lessons in competitive advantage: the Texaco station "was very well-established and very well-liked…customer loyalty…a clientele… Nothing we could do to change

From the Omaha World-Herald Photograph Collection at Durham Museum

Photograph of Warren Buffett, dated July 1, 1965.

that." With this lesson absorbed, it later led to some of his best buys as he sought companies with the most pronounced customer loyalties in their industries, such as Coca-Cola. But, at the time, the 22-year-old was smarting from losing $2,000 on petrol.

Dempster Mill Based in Beatrice, Nebraska, Dempster Mill supplied agricultural irrigation systems. Buffett began acquiring shares in 1956 at $16–$18. It had a net worth (book value) of about $4.5 million, or $75 per share. Net current asset value was about $50 per share and annual sales about $9 million. The price was so low because it kept making small profits or losses, and the management seemed clueless as to how to correct this miserable pattern. Also, it had high debt and was in an industry with very poor economics.

BPL became the 70% shareholder in mid-1961, spending $1 million at an average price of $28. Buffett was appointed chairman. The company engaged in a lot of unprofitable business ventures, using large amounts of shareholders' money in inventory and receivables. The logical thing to do was to cut drastically, releasing cash for deployment elsewhere, especially the purchase of other stock market quoted value shares. The managers nodded when Chairman Buffett spoke about reducing inventory on his monthly visits from Omaha—and then promptly did nothing. The cash shortage was so worrying that Dempster's bankers considered closing the company down, and in 1962 it was months away from disaster. Buffett faced the prospect of explaining to his partners that 21% of their assets had disappeared.

Then, Harry Bottle was put in charge. He quickly identified loss-making areas, fired people, sold equipment, introduced a cost data system, slashed inventory, closed five branches and raised prices for the rump business (for items where they were the sole suppliers, they increased prices by up to 500%). The value of the BPL stake rose threefold to $3.3 million.

Buffett learned the *value of excellent managers,* exhibiting competence and integrity. He also learned that *many businesses use too much money* in operations (40% of the capital was taken from operations for Buffett to invest elsewhere) and that *patience can be rewarded*—it took seven years to realize this investment.

Hochschild-Kohn In 1966, Hochschild-Kohn (HK) was uncompetitive and needed investment. Buffett knew he was buying "a second-class department store at a third-class price." Still, he liked the look of the net asset level, which was more than the market capitalization, and the hidden assets: unrecorded real estate values and a significant LIFO (last-in-first-out) inventory cushion. It was sold at $12 million, and BPL bought 80%. In 1968, sales plummeted. It was sold in December 1969, leaving Buffett with a loss.

Buffett learned about *the dangers of retailing.* The managers are usually under constant attack from competitors. If they come up with a good idea, it is usually not long before rivals copy. In other industries the managers do not destroy the business even if they perform in a mediocre fashion for a period. Thus, brands such as Gillette, Wrigley and Disney maintain the largest part of their franchises (their position in customer's minds) even if they have poor managers for a year or two.

The HK episode also helped crystalize in Buffett's mind that quantitative investment factors were not sufficient to make a great investment. He increasingly began to *focus on qualitative factors* as his career developed. He particularly *looked for strong economic franchises,* being willing to offer a fair price for a wonderful company rather a low price for a mediocre business. If the economic characteristics of the business and its industry are poor, then managers—even if excellent—will not succeed in generating high rates of return on capital.

Buffett's early years show the wisdom of the imperative to fail fast, and fail young, for that way lies insight and the knowledge to create future success. $

Despite holding the position of Professor of Investment, Glen Arnold concluded that academic life was not nearly as much fun (nor as intellectually stimulating) as making money in the markets. As a wealthy investor, he now spends most of his time running his equity portfolio from an office in rural Leicestershire, far from the noise of the City of London. His main research focus explores the question, "What works in investment?" drawing on the ideas of the great investors, academic discoveries and corporate strategic analysis. He is the author of the UK's best-selling investment book and best-selling corporate finance textbook. His most recent book is The Deals of Warren Buffett, Volume 1: The First $100m, *published by Harriman House, from which this article has been adapted. See: www.glen-arnold-investments.co.uk*

CORPORATE SPIRIT

Commerce and Religion Grow Together in the Early United States

Heritage Images

By Amanda Porterfield

Corporations play a major role in the organization of American life. In both their commercial and non-profit forms, corporations are everywhere. Much of the food and information we ingest, many of the things we use and most of the services provided to us by religious institutions, medical centers and universities come to us through corporate forms of social organization. Enthusiasm for corporate forms of organization intensified in the first decades of the new United States as independence from British rule led to broader access to corporate charters, and opportunities for commercial and religious growth abounded.

Beginning with the rapid increase in state-issued charters in the 1790s, corporations became primary vehicles of national organization. An 1829 article in the *American Jurist and Law Magazine* explained, "Multitudes of companies with corporate powers for banking, insurance, manufacturing, building bridges, roads and canals have been created in all parts of our country, and form one of the striking features of our social system."

A decade later, the French traveler Alexis de Tocqueville observed: "In no country in the world has the principle of association been more successfully used, or unsparingly applied to a multitude of different objects, than in America." Tocqueville noticed that even children at play organized themselves into companies, creating rules for governing their games and punishing infractions. Tocqueville also noticed the galvanizing effects of organizational thinking. "When an opinion is represented by a society, it necessarily assumes a more exact and explicit form," he observed. "An association unites the efforts of minds which have a tendency to diverge, in one single channel, and urges them vigorously towards one single end which it points out."

Previous page: Portrait of Alexis de Tocqueville (1805–1859), the French traveler who observed: "In no country in the world has the principle of association been more successfully used, or unsparingly applied to a multitude of different objects, than in America."

Aided by government procedures for implementing contracts, the scale of corporate enterprise in the early United States soon surpassed that in Britain, which had led the world in corporate organization and industrial development in the 18th century. In the wake of a disastrous episode of financial speculation in the early 18th century, the British Parliament's so-called Bubble Act had outlawed joint-stock companies without royal charters of incorporation. This legislation slowed corporate growth in Britain until 1825, when the act was repealed. Corporate development in France also lagged behind that of the United States; in 1791, during the French Revolution, the French Republic rescinded all corporate charters, and when corporations returned under Napoleon, they operated under strict government regulation. With major implications for the future, commercial corporations grew faster in the United States than anywhere else in the world during the first half of the 19th century, with American law and corporate organization leading the development of corporate enterprise elsewhere.

In the United States during this period, established churches were losing their legal standing, and state governments severed the formal connections to God those churches had represented. In this gradual process of religious disestablishment, churches came to occupy much the same ground as commercial corporations in relationship to state governments.

A new symmetry emerged between religion and commerce based on voluntary contracts. As corporate organizations in both arenas multiplied, legal reason and contract law facilitated expansion in both spheres, along with the flow of ideas and practices between them. Commercial and religious institutions transformed American life together, with religious organizations operating in the forefront of developments in print media, urban planning, interregional organization and ideas about personhood, while commercial organizations expedited advances in industrial organization that transformed relationships among people, removing them from face-to-face contact with the people who made the shoes they wore or produced the cotton they spun.

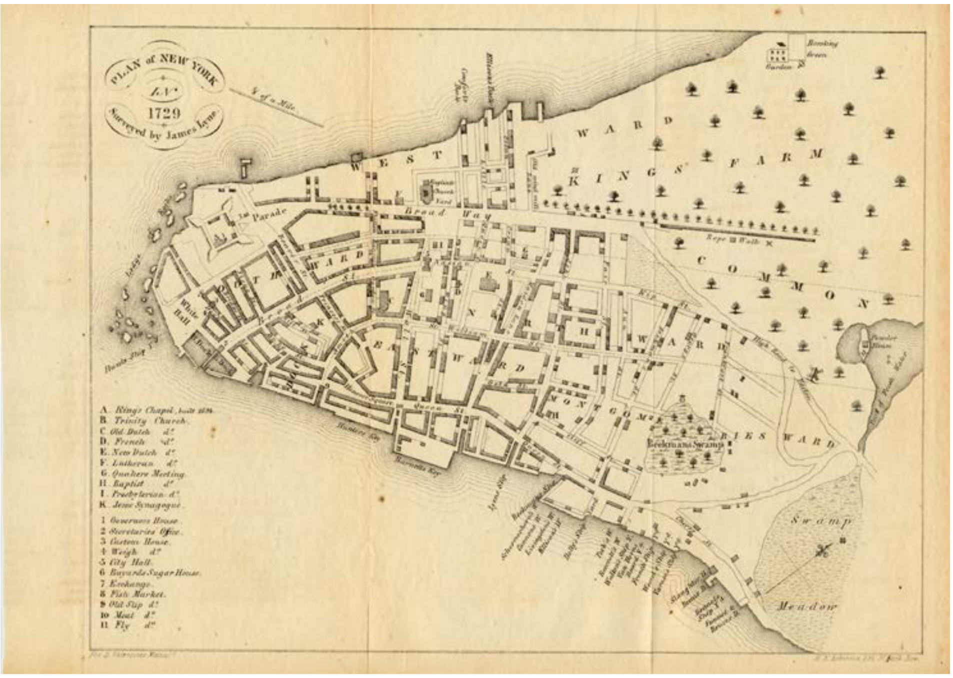
In human terms, the gap between the rational system of American governance and ordinary life could be disturbing. While corporations had legal standing as artificial persons, real persons could be bought and sold as property, a cruel reality that exposed both the power and the dark undercurrents of legal reasoning. Constitutional protection for slavery was the price that southern leaders exacted for joining the American union, and the price they continued to demand as slavery expanded.

Article I, Section 9 of the Constitution made it unlawful for Congress to restrict the "Importation of such Persons as any of the States now existing shall think proper to admit" until 1808. Article 4 protected the ownership of property moved across state lines, which implied and was consistently interpreted to mean that slaves did not become free by moving to a state where slavery had been abolished. Article I, Section 2 counted slaves as three-fifths of a person for purposes of apportioning state representation in the House of Representatives, where all bills of revenue and spending originated.

As historian George Van Cleve summarized the result of these protections, the Constitution "gave all the 'head start' slavery needed to escape from significant federal control until its continued expansion became politically uncontrollable — a raging torrent that leaped the banks of the political river."

With slavery its driving force, the volume of cotton produced in the United States expanded exponentially between 1790 and 1859, from 1.2 million to 2.1 billion pounds, feeding American textile mills and 80% of Britain's cotton industry by the 1830s. Driving this growth, the slave population increased from under 700,000 in 1790 to almost four million in 1860.

The dramatic expansion of slave labor also contributed to financial disaster, as demand for more and more output from slaves flooded the economy in cotton, contributing to the decline in cotton prices that accelerated pressures on slave labor, wage labor, capital investment and credit systems. Panic fueled by these pressures brought American manufacturers and many small investors to their knees



Collection of Museum of American Finance

Map showing the religious diversity of New York City in 1729, which includes houses of worship for Lutherans, Baptists, Quakers, Presbyterians and Jews, among others.

in 1837. People increasingly looked to religion for relief, to restore order, to generate prosperity and to help construct stabilizing visions of national identity.

After the War of 1812, the pace of immigration from Europe accelerated dramatically. Individuals accustomed to homogeneous religious and ethnic environments found themselves in a highly mobile, radically heterogeneous, rapidly expanding world. Innovations in communication and transportation often threw people together without a head or a common purpose, disrupting earlier forms of social organization. The faster and farther news traveled, the more anxious people became.

Religious activists worked to stretch canopies of interpersonal sympathy and belief in divine providence over the nation, as Americans embraced religion to construct regional and national identities to meet territorial expansion, population growth and new industries. In New York City, where many of the new immigrants first arrived, evangelicals built new religious institutions to serve the city's dislocated, often desperately poor residents. Newly-incorporated churches contributed as much to the island's social organization as did factories and shipping companies, with the founding of religious organizations keeping pace with population growth between 1812 and 1840, and even laying groundwork for the establishment of new neighborhoods. New York also emerged as the center of publishing, not only for evangelical churches and their missionary organizations, but also for the religiously tinged sentimental literature that flowed through the country in increasing abundance, encouraging sympathy as an expression of Christian humanism.

The bonds of sympathy could gloss over hard realities. Mills and factories now produced shoes and textiles for wider distribution, and industry no longer served local communities in ways it once had. People expected commerce to serve the common good, but the meaning of "common good" shifted as sheer productivity became a legitimating standard in the 1810s and 1820s. Arguing that economic growth served progress and the public interest, textile mills and other industries claimed rights to water and land that disadvantaged local residents and small businesses. Backed up by belief in the natural "harmony of interests" that freedom from oppressive regulation would yield, factories claimed exemptions from rules against negligence and nuisance.

Most new states were too poor to fund big public works, so their legislatures chartered corporations to build and operate roads, canals and bridges to transport produce, merchandise and people. Pent-up demand for corporate charters also contributed to commercial growth. Britain had prohibited colonial governments from issuing charters, leaving American businessmen to rely on partnerships that did little to shield investors from liability, or from dissolution when one of the partners withdrew. Well aware of the legal advantages of incorporation, and also of the superior development of corporate roads, canals and bridges in England, enterprising Americans with capital to invest were eager to establish corporate entities of their own, including banks to fund new industry and infrastructure.

Corporate business advanced most aggressively in Philadelphia, where financial corporations became vehicles of political influence. Before the American Revolution, a network of wealthy merchant families supported Philadelphia's strong civic institutions, including Pennsylvania Hospital, the College of Philadelphia, the American Philosophical Society and America's first public lending library. Determined to hold on to political influence after independence, these civic leaders faced the challenge of a unicameral state legislature more democratic and less dependent on educated elites than any other body of lawmakers in the new republic. With their direct power over government diminished, financiers in Philadelphia joined friends in New York to support Alexander Hamilton's national bank and to found the Bank of Pennsylvania.

With the completion of the Erie Canal in 1825, New York leapt ahead of Philadelphia to become the most powerful commercial entrepôt in the nation. Funded by New York State at the urging of New York City's wealthy merchants and bankers, the 360-mile passageway from the Hudson River to the Great Lakes brought meat, whiskey and flour to New York City. The canal also transported the wholesale goods arriving at city docks, pouring into the city's warehouses and famous auctions — everything from stoneware and iron chains to window blinds and black silk handkerchiefs. With Robert Fulton's steamboats moving goods up the Hudson to the canal at Albany,

Smith Collection/Gado

1824 lithograph from a painting of the exterior of the Old Methodist Church on John Street, New York City.

two-way traffic from New York City into Ohio stimulated commercial development throughout the Northeast.

Corporations drew strong criticism as well. Both Thomas Jefferson and James Monroe feared the imperialistic ambitions of corporations, and Jefferson celebrated the fact that the US Constitution did not grant the federal government power to charter them. Monroe summarized their concern in a letter of 1813, writing to Jefferson, "We are now at the mercy of monied institutions, who have got the circulating medium into their hands, & in that degree the command of the country." In addition to the problem of "Adventurers" within these institutions speculating with other people's money, Monroe viewed commercial corporations as "hostile to the govt," predicting that "these corporate bodies would make a great struggle, before they would surrender — either their power or the profit they are making by the use of it."

Partisan resentment festered as farmers and small businessmen saw elites in state government favoring wealthy friends with special charters of incorporation. Later Democrats built on this animus to challenge the inequitable system of patronage they perceived in state charters for financial and manufacturing companies. Few were more vocal in denouncing financial corporations than Andrew Jackson. "Everyone that knows me," Jackson wrote in 1833, "does know that I have always been opposed to the United States Bank, nay all banks." When the charter for the Bank of the United States came up for renewal during his presidency in 1832, Jackson vetoed "the Monster," taking a stand against "the rich and powerful," who "too often bend the acts of government to their selfish purposes."

But not all corporations — or even all banks — favored elites. Many Americans viewed corporations as republican institutions, perfectly suited to their republican system of government. One proponent of this view, the German American political philosopher Francis Lieber, embraced the idea that corporations were little governments. His popular *Encyclopedia Americana* of 1830 defined a corporation as "a political or civil institution, comprehending one or more persons, by whom it is conducted according to the laws of its constitution."

Demand for equal access to incorporation triumphed over the anti-corporatism of Thomas Jefferson and Andrew Jackson.

Responding to this demand, states established bureaucratic procedures for incorporation to eliminate the favoritism that incorporation through special legislative charter seemed to entail. In the 1840s and 1850s, 13 states introduced laws of general incorporation into their constitutions, and most states enacted statutes establishing uniform mechanisms for attaining corporate standing. According to historian Robert E. Wright, by 1860, nearly 4,000 US businesses had received charters through general incorporation procedures.

Religious corporations matched business growth. Between 1750 and 1850, the number of Congregational churches almost quadrupled, growing from 465 to 1,706. Religious societies funded by Congregationalists established new churches, charities, schools and missionary societies in Ohio, Illinois and Kansas. Presbyterian Church growth was more impressive still, expanding from 233 to 4,824 churches between 1750 and 1850. Baptists surpassed these wealthy rivals during the same period, growing tenfold from 932 churches to 9,375. Even as denominations split up over slavery in the 1840s and 1850s, northern and southern branches strengthened and pushed westward, expanding the geographical reach of religious institutions. These corporate organizations offered moral discipline and purpose, as well as competing religious visions of national identity.

Between 1750 and 1850, American Catholics built 1,200 new churches along with schools, orphanages and convents to serve a fast-growing population of Catholic immigrants and tens of thousands of new converts. By 1860, 4.4 million Americans — one out of every seven — were Catholic. In the new western states, the proportion of Catholics was greater, closer to one in five. On numerous occasions, Protestant preachers broadcast alarm about a flood of Catholic immigrants rushing into the West to take over the country. Coupled with fierce competition for low-wage work in eastern cities, Protestant anxiety about national identity fed the discrimination against Catholics that periodically erupted in violence. Catholics responded with their own ambitious programs of corporate expansion designed to strengthen Catholic identity and insulate members from abuse and discrimination.

Several states supported the growth of Catholic organizations by issuing charters for Catholic religious societies. In 1784, New York State passed a law ending the "illiberal and partial Distribution of Charters of Incorporation to religious societies" that had created "great Difficulties" for Catholics. Without proper charters, unincorporated "religious Societies" lacked "proper Persons authorized by Law, to take charge of their pious Donations," the new bill explained, with the result that religious property stayed "in private Hands, to the great Insecurity of the Society." Laws expediting incorporation for religious societies followed in other states, and these laws encouraged congregational governance in Catholic churches. Under state charters of incorporation, Catholic congregations became legal persons able to own property and enter into other legal contracts, with lay trustees responsible for managing contracts and various matters of internal governance.

Methodists were the fastest-growing Protestant denomination in the early republic; with Catholics, they set the pace of American corporate expansion. The new denomination was founded in 1784, and by 1850 Methodists had built more than 13,000 churches. With small circles of largely self-governing religious societies operating under the supervision of a centralized hierarchy, Methodist leaders firmly grasped the principle of vertical integration as an effective means to horizontal expansion. In frontier regions, Methodist societies operated under the monthly supervision of circuit riders, and in cities, Methodist societies served local communities under the supervision of church ministers, elders and deacons. The Methodist blend of hierarchical supervision and small group intimacy proved highly effective, and Methodist societies offered many people — including women and blacks — opportunities for leadership and decision-making they would not otherwise have enjoyed. Well in advance of commercial institutions, the expansion of Methodist churches demonstrated a highly-successful model of national organization.

Methodists also contributed to the market revolution that enabled small artisans, shopkeepers and farmers to forge respectable lives as middle class consumers. Methodist belief in free will supported this economic activity, as free will was translated into confidence in people's ability to surmount difficulties. As Richard Carwardine explained, this religious self-confidence spurred Methodists "to seek out potential converts under the most daunting conditions and in all corners of the union, however remote, and to get there before their competitors." Providing emotional outreach to people trapped on the shoals of uncertainty, loss and destitution, the Methodist Church and its publishing house played a major role in the dissemination of inexpensive print media, and in the promotion of reading as a means of communication and social integration.

As they expanded across the nation side by side, religious and commercial corporations developed similarities. Corporate innovations among Catholics, Methodists and other religious groups affected economic activity by supporting labor communities, providing cathartic outlets for emotion and constructing ideals of human personhood to counter the mechanization of industry. At the same time, corporate innovations in manufacturing affected the texture of religious life, imbuing religious institutions and religious practices with elements of machine-like efficiency, and pushing the operations of Christian charity and conceptions of Christian community in the direction of greater calculation and rational organization. $

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Blairstown Museum

WHERE ARE THEY NOW?

Blair & Co., Inc.

By Susie J. Pak

John Insley Blair, a New Jersey native of Scotch-Irish background, was said by numerous contemporary sources to be a relation of Rev. John Blair, an Irish immigrant who became president of the College of New Jersey in 1766. Other sources state definitively, however, that John Insley's paternal grandfather, John Blair Sr., was born in Scotland, immigrated to New Jersey and fought in the American Revolution. What is known is that John Insley's father, James Blair, was a farmer born in New Jersey.

When he was 10 years old, John Insley Blair reportedly told his mother, "Mother, I have seven brothers and three sisters. That's enough in the family to be educated. I am going to get rich." He soon began working at the general store of his cousin, Judge Blair. He later opened a general country store with a cousin, also named John Blair, before going into business for himself in 1821. With the assistance of his brothers and brothers-in-law, Blair's business interests grew to five general stores and four flour mills by the time he was 28. Blair also expanded into the manufacture of cotton, mining and railroads. In 1825, he was appointed the postmaster of Gravel Hill, New Jersey, which was renamed Blairstown in 1839 to acknowledge his standing and achievements. When he died in 1899, his estate was reportedly worth $70 million.

John Insley Blair's wife, Ann Locke, was the daughter of a Revolutionary War soldier killed in the War of 1812. Their oldest daughter, Emma Elizabeth Blair, married Charles Scribner, the founder of the Scribner publishing house, in 1848. Their oldest son, Marcus L. Blair, predeceased his parents and did not marry. Aurelia Ann Blair, the youngest daughter, was married to Clarence Green Mitchell, a lawyer. Their

John Insley Blair (center) outside the Blair home with his nephew John Davis Vail and his family. Photograph circa 1892–1894.

Blairstown Museum

Portrait of John Insley Blair

Blairstown Museum

Portrait of Clinton Ledyard Blair

Bettmann

Portrait of A.P. Giannini

second son, Dewitt Clinton Blair, graduated from Princeton in 1856.

In 1864, DeWitt Clinton Blair married the former Mary Anna Kimball. They had three children: John Insley Blair, who died in infancy; Clinton Ledyard Blair, known as "Ledyard," who graduated from Princeton in 1890; and John Insley Blair (also called Insley), who graduated from Princeton in 1898. The year Ledyard graduated from Princeton, he joined his father and grandfather in organizing Blair & Co., which managed John I. Blair's many investments. Thus, Blair & Co. started its origins as a family partnership uniting three generations of the Blair family even though John I. Blair did not actively participate in the firm. According to Jeanette Iurato, curator of the Blairstown Museum, "John I. Blair had already suffered a stroke after losing his wife in 1888, and merely gave his name to the project to help establish his grandchildren's financial futures." After DeWitt Clinton died in 1915, Ledyard became the head of the firm. His brother, Insley Blair, also joined the firm, but retired in 1905 and became well-known as an art collector.

Ledyard Blair's family had ties to prominent financial families on the East Coast. Blair and his first wife, the former Florence Osborne Jennings, married in 1891. They had four daughters, and in 1919, their youngest daughter, Marie Louise, married Pierpont Morgan Hamilton, the grandson of the late J. Pierpont Morgan. Hamilton was the son of Pierpont Morgan's daughter, Juliet, and William Pierson Hamilton, a J.P. Morgan & Co. partner. On his father's side, Hamilton was also a descendant of Alexander Hamilton, the first Secretary of the Treasury.

After Florence Blair died in 1931, Ledyard married Harriet Stewart Brown Tailer in 1936. Harriet's father, Alexander Brown, was the head of Alex. Brown & Sons between 1890 and 1924 and a descendant of Alexander Brown, an Irish immigrant who was the founder of the family firm, a prominent Baltimore investment bank. According to his descendants and published media reports, Ledyard apparently spent much of his father's fortune within his own lifetime.

During Ledyard's tenure, Blair & Co. also went through a significant change. In 1920, Blair & Co. merged with the firm of William Salomon & Co. The firm incorporated and became Blair & Co., Inc. The union of Blair & Co. and William Salomon & Co. brought together two firms founded by families with Revolutionary-era roots. William Salomon was a native of Mobile, Alabama, and came from a prominent Jewish American family. His paternal great-grandfather was a banker who had served in the Revolutionary Army. William Salomon was educated in Philadelphia and New York before he joined the firm of Speyer & Co., which had been founded in 1845 as Philip Speyer & Co. by Philip Speyer, the descendant of a prestigious Frankfurt banking family. Salomon trained briefly in Germany and London at the Speyer branches in Europe. He became a Speyer partner before retiring and serving as the chairman of the board of the Baltimore & Ohio Railroad. After he left the B&O, he opened his own banking house in 1902.

By the time Salomon died in 1919 and his firm was merged with Blair & Co., William Salomon & Co. was known to be "a successful house of issue and distribution" that could complement Blair's reputation "as one of the most conservative banking firms in the street." Ledyard Blair was named chairman of the board of directors and Elisha Walker of William Salomon & Co., who had been one of the executors of William Salomon's estate, became president of the new company. The following year, Ledyard Blair retired from the firm, and the Blair firm ceased to be a family-led business. Ledyard died in 1949.

The new head of Blair & Co., Elisha Walker, was a New York native and a graduate of Yale University (1900) and the Massachusetts Institute of Technology (1902). His father, Isaac, was an English immigrant and merchant. Walker joined William Salomon & Co. in 1904 and became a partner in 1910. During his tenure, Blair & Co. merged with Bancamerica Corporation, the securities affiliate of the Bank of America. In 1929, the firm was renamed Bancamerica-Blair Corporation and became the investment banking affiliate of the Bank of America. The merger

Blairstown Museum

was believed to represent the first between a private bank and a national bank. It also tied Blair & Co. to a long history of banking in California and Transamerica Corporation, which had been established in 1928 as a banking holding company by Amadeo Pietro/Peter Giannini and led by his son, Virgil David Giannini.

Born in San Jose, California, A.P. Giannini was the son of Italian immigrants from Genoa, Italy. Capitalizing on the outstanding economic growth of the state of California in the early 20th century, Giannini founded the Bank of Italy in 1904, which grew into the third-largest American bank by 1927. In 1928, Giannini bought the controlling interest in the Bank of America, a descendant of the Second Bank of the United States (founded in 1812). In 1930, the Bank of Italy was formally merged into the Bank of America. That year, Walker became the chairman of the board of Transamerica and Hunter S. Marston, a Brown University graduate, succeeded Walker as president. Hunter's father, Edgar Lewis Marston, was one of the original partners in Blair & Co. A native of Iowa and a graduate of La Grange College and Washington University Law School, Edgar L. Marston joined Blair & Co. in 1893 and died in 1935. Hunter was born in St. Louis and joined the firm in 1908 after graduating from Brown University.

During the early years of the Great Depression, the value of Transamerica declined precipitously, and the firm entered a period of turmoil when Walker and Giannini engaged in a proxy war over the direction of the holding company. Walker lost to Giannini in 1932, and he resigned from the firm as did Hunter Marston. After losing his fight with Giannini, Walker joined the firm Kuhn, Loeb & Co. (founded in 1867). The Associated Press said it was known that Walker would land on his feet, but the announcement of a Kuhn, Loeb partnership "caused mild surprise." Kuhn, Loeb, which was founded in 1867, had not admitted a non-family member until 1912. It remained largely a family firm, but it was at a time of transition in its history and had lost several key partners in the early 1930s. Walker was seen as bringing "new blood into the old firm," and he created his own family legacy at Kuhn, Loeb. His son, Robert Elisha Walker, became a Kuhn, Loeb partner in 1949.

Blair & Co. building, erected in 1903 on the corner of Broad Street and Exchange Place, New York City.

Transamerica Corporation did not long stay the owner of the Blair firm. In 1938, it sold its remaining interest in Bancamerica-Blair Corporation to Ashby Oliver Stewart, the former chairman of the board of the Federal Reserve Bank of San Francisco. The son of a grocer, Stewart was a native of a Missouri and the former president of Golden Gate Ferries, Inc. and the Pacific Coast Mortgage Co. A former bank clerk, Stewart made his name in San Francisco real estate before branching out into mines and land banks. He was an associate of A.P. Giannini and sometimes rumored to be a "Giannini frontman." *Time* magazine referred to him as a "West Coast Napoleon." He became the chairman of the board of Bancamerica-Blair in 1938.

Though under the new ownership, Bancamerica-Blair continued to be led by long-term members of the firm and its Salomon predecessor. In 1939, Bancamerica-Blair stockholders also voted to restore the name of Blair & Co. That year, Hearn W. Streat was named vice chairman and John Rhea Montgomery was made president. Montgomery was a New Jersey native and the son of a lawyer. A graduate of Princeton University, Montgomery worked as a bond salesman at William Salomon & Co. before it merged with Blair & Co. Streat was a New York native. His father was a buildings material manufacturer. Streat joined Blair & Co. in 1899. He started as a runner and worked his way up through the organization. Streat retired in 1941 and died in 1946.

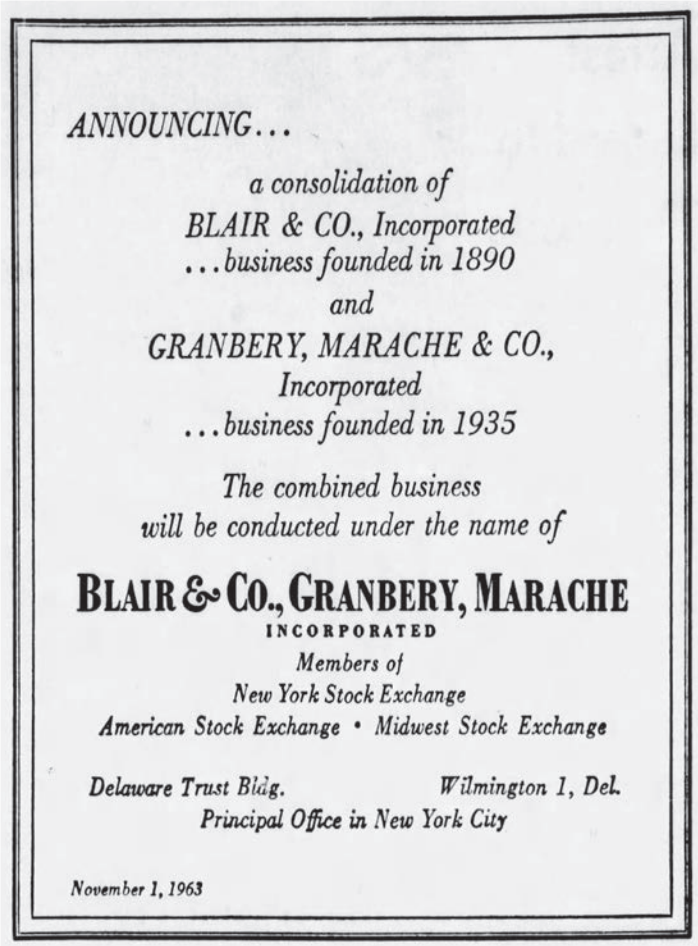
In 1950, Blair & Co., Inc. changed its name again when it merged with E.H. Rollins & Sons, a banking house founded by Edward Henry Rollins, who had been a US Senator from New Hampshire. The new firm became Blair & Co.-E.H. Rollins, Inc. Blair Holdings Corporation, the holding company that owned Blair & Co.-E.H. Rollins Inc., also bought The First California Co., which had been formed in 1945 out of the Bankamerica Co., "a wholly owned subsidiary of the Pacific Coast Mortgage Co.," where A.O. Stewart had been chairman of the board. Virgil D. Dardi, the president of First California, became the chairman of the board and Warren H. Snow, the president of Rollins, became president of the newly-merged company.

In 1954, Dardi left the firm and Blair & Co.-E.H. Rollins, Inc. again reverted to its original name, but by this time, the firm had begun to shift away from being led by long-time members of the original Blair and Salomon predecessors. In 1963, Blair & Co., Inc. merged with Granbery, Marache (founded in 1948), and the leadership and name of the firm changed again. Oliver DeGray Vanderbilt III was named chairman of the board of the new firm called Blair & Co., Granbery, Marache Inc. A New York native, Vanderbilt III was a St. Paul's School and Princeton University graduate. His father worked for a manufacturer of railway parts and supplies. Vanderbilt III also worked in the railway supply business before becoming a trustee of the Penn Mutual Life Insurance Co. in 1956. He had been with Blair & Co., Inc. since 1957.

In addition to Vanderbilt III, the new leadership of Blair & Co., Granbery, Marache Inc. included Herbert W. Marache, who was named president and CEO. A native of Brooklyn, New York, and a graduate of Yale University, Marache was the son of a banker. His father had been a member of Blake Brothers & Co. (founded in 1858). Marache's former partner, E. Carleton Granbery, was a graduate of the Berkeley School (NYC) and Yale University. Granbery, who was the son of a broker, founded Granbery, Safford & Co. in 1935. He merged the firm with Craigmyle, Marache & Co. (founded in 1934) to form Granbery, Marache & Lord in 1937. The firm was renamed Granbery, Marache & Co. in 1948.

Before Granbery Marache's merger with Blair & Co., Granbery had retired in 1959 and become a special partner. He died in 1961. Both Granbery's and Marache's sons, who were Yale graduates like their fathers, had joined the family firm. Granbery's son, John Granbery, studied at the Hotchkiss School and graduated from Yale University in 1934. Marache's son, Herbert W. Marache, Jr., studied at St. Paul's (NH) and graduated from Yale University in 1950. Despite the engagement of the founders' families into the second generation, the leadership of the firm eventually passed to William M. Lendman, a New Jersey native, who had been in charge of Granbery's sales department.

The elevation of Lendman to the leadership of the firm appears to be tied to the combined involvement of investors Robert K. Lifton and Jay Pritzker, who along with other associates were approached by Martin Whitman, an investment adviser



ANNOUNCING...

a consolidation of

BLAIR & CO., Incorporated

...business founded in 1890

and

GRANBERY, MARACHE & CO., Incorporated

...business founded in 1935

The combined business will be conducted under the name of

BLAIR & CO., GRANBERY, MARACHE

INCORPORATED

Members of New York Stock Exchange

American Stock Exchange • Midwest Stock Exchange

Delaware Trust Bldg. Wilmington 1, Del.

Principal Office in New York City

November 1, 1963

Merger announcement introducing Blair & Co., Granbery, Marache, which was published in *The Morning News* (Wilmington, DE) on November 4, 1963.

and former broker at Gerstley, Sunstein & Co., to buy Granbery, Marache around this time. A New York native, Lifton graduated from the Baruch School of the City College of New York and Yale Law School. He made his name in real estate syndication and as an entrepreneur. Jay Pritzker, who was the son of a prominent Chicago lawyer, was also a successful entrepreneur and the founder of the Hyatt Hotel chain.

Although the new owners do not appear to have had ties to the original Blair firm, in many ways, their investment signified a return to the entrepreneurial model of the first Blair partnership and the acquisition of the firm by A.O. Stewart during the Great Depression. According to Lifton, he, Pritzker and others bought the firm, after which they installed Lendman as the head. When Blair & Co., Granbery, Marache, Inc. celebrated its 75th anniversary in 1965, Marache Sr. became president *emeritus* and was succeeded by William M. Lendman.

In 1966, during Lendman's tenure, the firm changed its name back to Blair & Co., Inc., the third time in its history that it reverted back to its original name. By 1967, the firm had grown to 25 offices. The following year, during the height of the paperwork crisis on Wall Street, Blair began to acquire the offices of troubled firms. In December 1968, Blair & Co. took over the 15 offices of Schwabacher & Co., a San Francisco brokerage house that was reorganized as Blair's West Coast division. At that time, Blair restructured and created an "office of the president." In addition to Lendman, the other president was James Basil Ramsey Jr., a Tennessee native whose father was a bank president.

Then, within a very short period of time, Blair & Co. ran into trouble. During the bear market that followed the paperwork crisis on Wall Street, Blair & Co. found itself short of capital, reportedly experiencing operating difficulties created by the Schwabacher & Co. merger as well. According to Robert K. Lifton, Lendman was still at the firm when the officers "concluded that the company should discontinue operations because success required that the New York Stock Exchange reach a trading volume that they thought was not attainable." Newspaper reports indicate that Lendman resigned from the firm in 1969, and Ramsey Jr. was elected president and CEO. Vanderbilt remained chairman of the board, but he left in 1970.

By August 1970, Blair & Co. sold 14 of its offices to Thomson & McKinnon Auchincloss, Inc. in a distress sale, including the western branches acquired in the Schwabacher & Co. merger. *The New York Times* reported that Blair's problems were "believed to be among the worst on Wall Street." Ramsey Jr. joined Thomson McKinnon Securities as senior vice president.

In a relatively short period of time, the financial position of the Blair firm became irreparably compromised, and the firm shut down. In what the Associated Press called a "traumatic year for [the] stock market," Blair & Co. became one of "a number of brokerage firms [that] had dissolved, liquidated or were in the process of liquidating." According to the *Courier-Post,* "Blair had 29,000 customer accounts on its books when the New York Stock Exchange stepped in to liquidate it [in September 1970]." With the liquidation, the history of Blair & Co. came to an end. $

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Editor's note: Special thanks to Jeanette Iurato, curator of the Blairstown Museum (www.blairstownmuseum.com) in Blairstown, New Jersey, for her assistance with this article.


Courtesy of Historic Hotels of America (HHA)

The legendary lobby of the Willard InterContinental Hotel in Washington, DC. Built and expanded between 1816 and 1858, it quickly became a hub of unofficial political activity during the American Civil War. Advocates for a particular cause would hang about the common areas and came to be known as lobbyists. In 2017, Jim Hewes at The Willard was named Hotel Historian of the Year by Historic Hotels of America.

THE BUSINESS OF HISTORY

By Gregory DL Morris and Tara Patrick

From the pages of this magazine and the galleries of the Museum, to the grandest estates of the captains of industry, the history of business is often simultaneously the business of history. That is the vexing reality to those who value history for its own sake.

Just because something is historical, or actually historic, does not automatically mean it can be monetized. The original Pennsylvania Station in Manhattan can be demolished to make way for ugly but profitable steel and glass boxes. But in many cases history can pay its own way, and then some.

"As a meeting planner for 20 years, I want some enrichment to an event," said Amy Talley, executive director of the Association of Meeting Professionals, based in Falls Church, Virginia, near Washington, DC. "Of course the wi-fi has to be strong, and there has to be cell phone service in the basement if there are going to be activities there. And there cannot be a pillar in the middle of the ballroom. But historical properties can do so much to enhance a meeting, because in a well-planned meeting, we are not just trying to get through an agenda, we are trying to create an experience."

Given a venue choice for an event some people and companies will always choose the chain hotel by the airport or interstate over the historic hotel or mansion downtown, for ease of access or lower cost. "But as meeting planners, we always want to give clients options," said Talley. "There is a broad appreciation of historic places and things. If the event cannot be at a historic venue, then there can be tours of museums or historic sites, or at least a local historian to give a talk at the brewpub."

Sometimes the structures themselves do the talking. The term "lobbyist," and the verb "to lobby," came from the practice by advocates of different causes loitering in the lobby of the Willard Hotel in Washington, DC, waiting to plead their case with every elected and appointed official who walked through. The Willard is two blocks from the White House and still plays a role in business and politics.

"It can be a very strong differentiator for a property to highlight its historic value," said Talley. "And generally speaking, historic properties do communicate. It is incredibly helpful for them to have full details on their history as well as detailing their meeting and event capabilities."

The National Trust for Historic Preservation is a non-profit organization established by President Harry S. Truman in 1949, which is best known for preserving historic homes and mansions. In 1989, the organization formed the Historic Hotels of America (HHA), which are for-profit businesses. Twenty of the original 32 hotels are still members. The total has grown to more than 300 in the United States and even more as part of the Historic Hotels Worldwide.

The outlook for the US lodging industry, particularly historic hotels, continues to be extremely strong, according to the annual forecast released in February by CBRE Hotels' Americas Research. CBRE Group is the largest commercial real estate services and investment firm in the world.

Through the first three quarters of 2017, the aggregate revenue per available room for historic hotels that are members of HHA placed between the national averages for all upper-upscale and all luxury hotels in the United States. Annual occupancy levels for hotels that are members of HHA remains about eight percentage points above the national average occupancy level through 2019.

Based on a set of information pulled from CBRE's database, the daily rate for historic hotels is about $260, more than 12% higher than the $230 average for contemporary hotels. Since 2009, historic resort hotels have achieved greater revenue and profit growth compared to their contemporary counterparts, CBRE found.

"The data strongly supports the idea that many consumers favor and will pay more for the unique hotel experience historic properties can offer," said Mark Woodworth, senior managing director at CBRE.

HHA is a membership organization. Hotels pay a membership fee and have access to guidance on policy, publicity and tax credits. Properties must be 50 years or older and be eligible for the National Register of Historic Places. They also have to maintain their overall architectural integrity. Some hotels are part of the major commercial chains, while others are independent. The Willard is a member.

"Hotels don't have to be in continuous operation, or have always been hotels," said Michael DiRienzo, director of sales for HHA. "Many of our members are adaptive-reuse of buildings built for other purposes and now turned into hotels featuring that history. The interior can be quite modern."

It is important to look both inward and outward, DiRienzo noted. The place has to tell its own story, and in doing that often becomes an anchor to a neighborhood. "They become the reason other things are there." The National Trust has a program called Main Street that fosters multi-use mixed areas of historic value.

HHA also has a Performance Improvement Plan for members that helps them operationally and in communicating their story. "Finding space to tell the story can be a challenge," said DiRienzo. "We try to share best practices. I have told several members about an idea I saw at the Mark Hopkins Hotel in San Francisco. They put a mini-museum into the space that used to be pay phones. It was the perfect size and location, close to the lobby but out of direct walkways. It became a focal point."

DiRienzo acknowledged there is "maintenance and upkeep for a historic property, just as there would be for an older house." That said, he cited the CBRE report that historic properties do see an average rate premium. So, indeed, history can be a viable business. "Historic properties also attract a high level of international delegates to events," he added.

Jay Zelkowitz, front office manager for the Glen Cove Mansion on Long Island, concurred. The 55-acre estate was the home of John Pratt, an attorney and executive with John D. Rockefeller in Standard Oil. "Maintenance is one of the toughest things, but our housekeeping and engineering staff work very closely on that."

He also noted quirks, such as the restaurant on the third floor, literally under the eaves, with no elevator access. Nevertheless history is part of the business.

Stephen Turner

Aerial image of the Oheka Castle in Long Island, New York.

"It can be the reason people come here in the first place, or it can be the reason they come back."

History can also be timely. "Historic places become destinations especially these days because they conjure images of longevity," said DiRienzo. "In troubled times people can look back in historic places and find it comforting that those walls have seen troubled times and managed to survive." Or they can be a foil. "My niece is 22 and works for a high tech firm. After dealing with engineers all day in that sterile environment, she loves to go home to history."

Many historic properties were homes, such as Oheka Castle Hotel and Estate in Huntington, New York. The business model is preservation; the well-rounded business model works to keep the estate vital. Tours are key to its success. The core philosophy is helping to preserve the authenticity of the historical site. To do so, profit is necessary.

"All of these elements are very important in maintaining the estate," said Nancy Melius, director of marketing and design for the past 12 years, and daughter of Oheka developer and owner, Gary Melius. "Without funding we wouldn't have the same place. You simply need funds to have a wonderful experience."

Construction of Oheka began in 1917, and it ultimately became the second largest private residence ever built in America. The Biltmore House in Asheville, North Carolina, built by George Washington Vanderbilt II between 1889 and 1895 and now a historic hotel and convention center, is the largest privately-owned home in the United States. Its 250 rooms comprise 175,000 square feet.

Otto Kahn spent summers there with his wife, Addie, and their four children. After Kahn's passing in 1934, the estate went through many different owners. By 1936, Kahn's image became the inspiration for the character Rich Uncle Pennybags (later known as Mr. Monopoly) in the wildly popular board game. It was eventually purchased by the Welfare Fund of the Sanitation Workers of New York City and became a retirement home. Later the estate became a training facility for the Merchant Marine. By 1979, the Cold Spring Hills Civic Association sought to preserve the Oheka.

But eventually costs ran too high and the estate fell into disrepair. Melius purchased Oheka in 1984 and vowed to restore

San Antonio, Texas, has a high concentration of thriving historic businesses in a small area near the Alamo and Riverwalk. The Emily Morgan, pictured here, is reputedly haunted. The bar at The Menger Hotel, adjacent to the Alamo, is a replica of the House of Lords pub in London, and is the place where Theodore Roosevelt recruited cowboys to form his Rough Riders brigade. Those two, as well as the Crocket and La Mansion del Rio, are members of Historic Hotels of America. The Gunter Hotel is also said to be haunted and is on the National Register of Historic Places.

it. The original cost to build the estate was $11 million ($158 million today).

Largely due to revenue, 85% of Oheka's buildings and grounds have been restored. When Melius' daughter, Nancy, came on board, she focused on ensuring that Oheka maintains its original beauty. "Telling a story and creating experiences are key in the success of attracting guests," she said, adding that operating for-profit is necessary. The business of history is not lost on her. She noted that the business side of the museum feeds preservation. Simply put: "We're a hotel and historic site," she said. "We're a big estate with a small, personal feel."

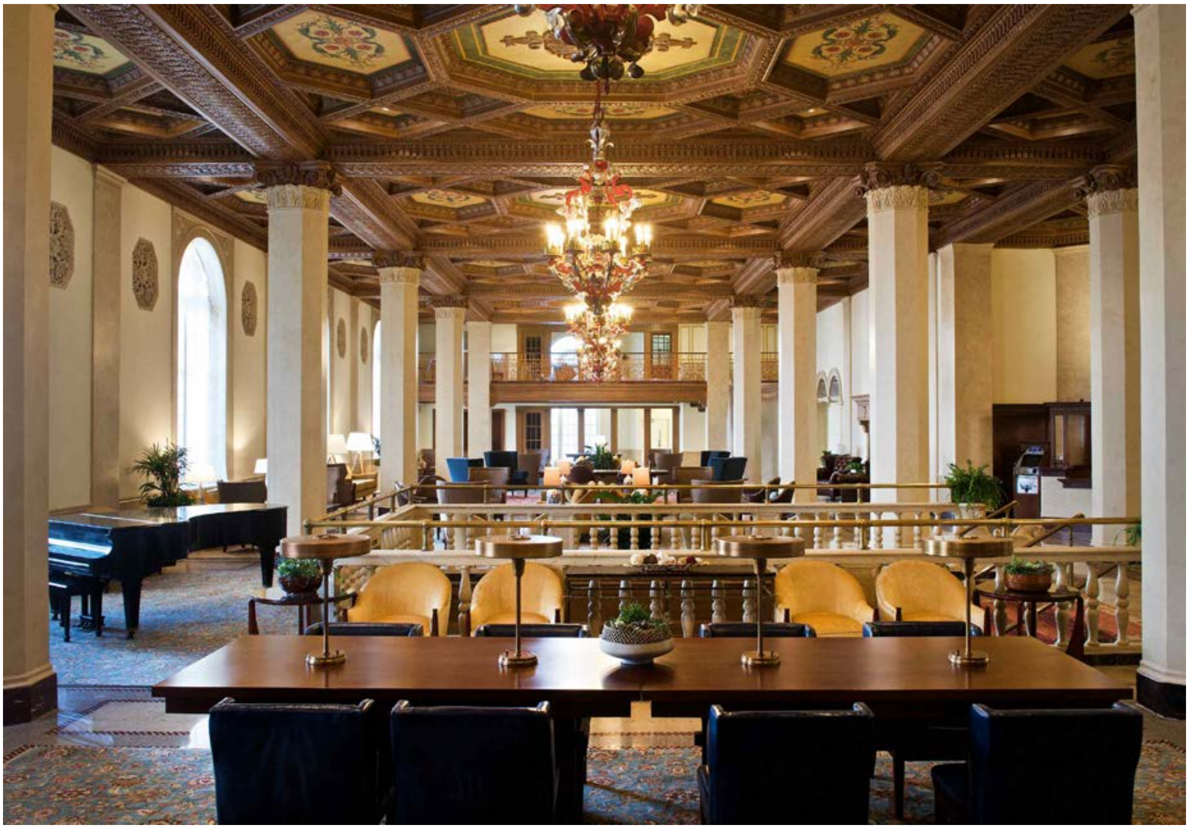
The facility trades on its vast gardens and palatial Gilded Age zeitgeist. There is a brisk business in weddings and other major events. Guests stay in 117 rooms on the 115,000 square foot property. Nancy noted the value of adding weddings to the repertoire. Otto Kahn's daughter, Maud, became the estate's first bride on June 15, 1920. The majority of their business comes from weddings — about 200 per year. Nancy added that guests are often moved by the charming recreated staircase and vintage library, preserving Kahn's original vision.

"We're going for the 'wow' factor," she elaborated. "We want them to pull through the driveway and feel like they're in France." Indeed visitors come from France, Germany and the UK, all countries with famous castles of their own. The formal gardens were designed by prominent landscape architects the Olmsted Brothers, one of whom, Frederick Law Olmstead, was a co-designer of Central Park in Manhattan and Prospect Park in Brooklyn.

"We have to get people in the door to sustain it, and these people deserve the experience of a historic site both honored and maintained," said Nancy, noting Oheka's 75 person staff. "We're always reupholstering. With paid staff we're able to provide a more professional experience." In addition to weddings, corporate events and hotel guests, there are tours and, recently, a venture into art exhibits. There are also plans for a spa.

Oheka brings in roughly $16 million a year, with most of the money going directly back into the estate. "We feel an obligation to keep these places alive and share them with the public," said Nancy, adding that while there were 1,000 historic sites in 1920, that figure has plummeted

The Empress Hotel, on the harbor in the provincial capital of Victoria, British Columbia, holds its legendary high tea every afternoon. Canada has done well in the business of history. From the Empress to the Banff Springs Hotel, to the Chateau Frontenac in Quebec City.



Courtesy of Historic Hotels of America (HHA)

The recently restored lobby of the Marriott Syracuse Downtown. Built in 1924, the hotel — like the upstate New York city around it — fell on hard times in the late 20th century. The hotel now anchors a revived entertainment district of restaurants, pubs, theaters and shops. It was named 2017 Best City Center Historic Hotel by Historic Hotels of America.

to 300. In 1996, to maintain ties to the surrounding community, members of the Cold Spring Hills and Huntington communities formed The Friends of Oheka, a not-for-profit corporation.

Oheka joins Old Westbury Gardens, Eagle's Nest Vanderbilt Museum and Mill Neck Manor as part of an elite group known as the "Gold Coast Mansions" on the North Shore of Long Island. Famed author F. Scott Fitzgerald captured the essence of what the mansions and museums are about, inspired by the landscapes and architecture, and designed by premiere architects of the day.

There are estates and museums Nancy admires, including the Preservation Society of Newport County. "We want to have the same feeling that Newport offers," Nancy said. "In truth, I wanted to emulate what they do in Newport." There are hidden gems scattered throughout the East Coast. Nancy also praises the works of Chelsea Mansion — in East Norwich — and Westbury Gardens.

The Vanderbilt mansion, museum and planetarium finds itself in a different financial position to sell both history and the universe. Lance Reinheimer, executive director of the Suffolk County Vanderbilt Museum for seven years, said the non-profit is owned by Suffolk County. It is in Northport, Long Island, just west of Huntington.

"Being owned by Suffolk County allows us to use the funding to maintain and preserve the estate," said Reinheimer, a self-proclaimed "financial person." When Reinheimer took the reins, his vow was to ensure that funding was managed as effectively as possible and, in essence, allow history to be sold. According to Reinheimer, the Vanderbilt operates on a $2.6 million budget supplemented by donations.

While the Vanderbilt Mansion and Museum draw thousands of visitors each year, Reinheimer said the planetarium pulls in the most visitors and largely helps fund new projects, including a Hall of Fishes to honor the original owner, William K. Vanderbilt, grandson of dynasty founder Cornelius Vanderbilt.

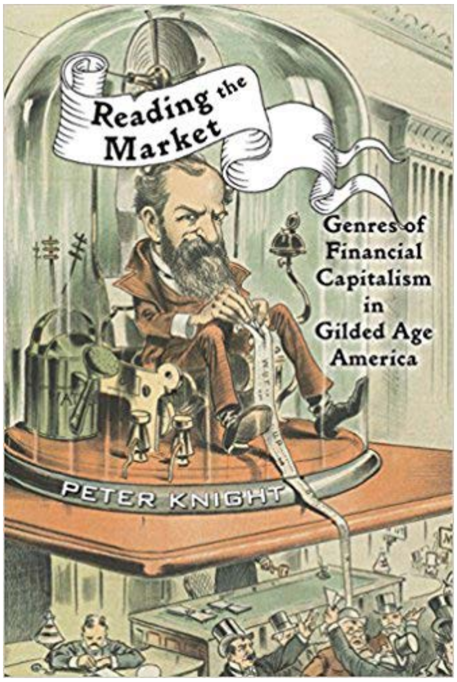
The 43-acre waterfront Vanderbilt Museum complex counts among its collections more than 30,000 objects and artifacts. The grounds include the mansion, curator's cottage, a seaplane hangar and boathouse, antique household furnishings, decorative and fine art, and the archives. The goal, said Reinheimer, is to entice people to come back. "We need to give visitors something more each time," he said.

William Vanderbilt created what the museum states to be one of the world's most extensive, privately assembled collections from the pre-atomic era — in his own marine museum, the Hall of Fishes, which he opened to the public in 1922. He established a trust fund to finance the operation of the museum and deeded it to Suffolk County, New York, upon his death in 1944. The county opened the museum to the public in 1950.

Wings of the mansion house galleries of his natural history and cultural artifact collections, as well as the habitat with its nine wild animal and marine life dioramas created by artisans from the American Museum of Natural History. $

Gregory DL Morris is an independent business journalist, principal of Enterprise & Industry Historic Research (www.enterpriseandindustry.com) and an active member of the Museum's editorial board.

Tara Patrick is an experienced journalist covering travel, sports, entertainment, business and fashion.



Reading the Market: Genres of Financial Capitalism in Gilded Age America

By Peter Knight
Johns Hopkins University Press, 2017
336 pp. with notes and index
$24.95
Paperback

It is not unusual today to have finance or banking as the centerpiece of a popular television series, movie, play or novel. *The Big Short* had Margot Robbie in a bathtub trying to explain mortgage securitization. *Billions* is in its third year, and by mixing bonds with bondage, it looks to be good for another couple of seasons. Financial markets are just too rich a source of characters and plot lines to be far from drama or comedy.

There are many who may think that the depiction of financial markets is a pretty straightforward proposition. Financial markets gather capital and distribute it. Individuals and institutions — some malevolent, some not — invest and speculate on the value of financial assets at a given moment. Money is made and money is lost. Like any other human endeavor, some parts of this process are easier to understand than others.

For others, depictions of financial markets express themes that are anything but straightforward or simple. Good versus evil, success versus failure, beauty versus baseness; these just scratch the service. Finance-themed cartoons, organizational charts, gossip columns and travel literature carry with them deep seeded psychological and societal messages that transcend easy characterization. That is the basic premise of Professor Peter Knight's book, *Reading the Market: Genres of Financial Capitalism in Gilded Age America*.

Knight starts his analysis by looking at the humble daily stock market reports that began to occupy a more prominent place in periodicals at the turn of the century. Citing issues of the *New York Herald* and *Harper's* magazine and other publications, he notes they adopted a style of market reporting that sought to alter the public's perception of the markets and "transform ordinary Americans into vicarious spectators of finance."

As "the market" became more broadly followed, Knight asserts, the ticker tape machine became more than a collection of gears and spools. Instead, the clacking beneath the glass dome personified both the immediacy and abstraction of trading floor activity. "Far from being a mere unfeeling machine, however," he writes, "it is presented in the rhetoric of technologically infused spiritualism as a sensitive medium, picking up, in advance, the movements of human history that elude conscious apprehension." Whew, that's a lot from a paper tape.

Using the same approach, the book turns next to other popular pictures of the market at the time. These include cartoons, travel books and Babson's charts of the ups and downs of business activity. These, according to the professor, "worked not through the genre of realism, but instead were, in an important sense, *self-referential* artifacts, akin to forms of modernist art that were beginning to emerge at the same time."

The book moves to its ending with a discussion of how confidence games and conspiracy theories of the era were portrayed. Herman Melville's *The Confidence-Man* is discussed, as are the works of William Dean Howells, Edith Wharton, Walter Lippmann and the Pujo Commission. No study of this sort would be complete without J.P. Morgan, who makes an obligatory appearance. Knight extracts messages from each, including the industrialization of fraud, the disruption of localized trust and "the actual mutual back-scratching of a clubbable coterie."

Professor Knight has highlighted some interesting connections between popular depictions of financial markets in the Gilded Age. He certainly sees unifying themes among them, however unconnected and random his selections may be. $

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